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United Nations Relief and Works Agency for Palestine Refugees in the Near East

Financial report and audited financial statements

for the year ended 31 December 2014

and

Report of the Board of Auditors

United Nations • New York, 2015

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Note

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Letter of transmittal

Letter dated 30 June 2015 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2014.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor-General of
the United Republic of Tanzania
Chair of the United Nations Board of Auditors

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

We have audited the accompanying financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) for the year ended 31 December 2014, which comprise the statement of financial position (statement I), the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the statement of cash flow (statement IV), the statement of comparison of budget and actual amounts (statement V) and the notes to the financial statements.

Responsibility of management for the financial statements

The Commissioner-General of UNRWA is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) and for such internal controls as management deems necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the auditors

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing, which require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers such internal controls as are relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNRWA as at 31 December 2014 and its financial performance and cash flow for the year then ended, in accordance with IPSAS.

Report on other legal and regulatory requirements

Further to our opinion, the transactions of UNRWA that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations of UNRWA and legislative authority.

In accordance with regulation 12.2 of the UNRWA Financial Regulations and the related annex, we have also issued a long-form report on our audit of UNRWA.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor-General of the United Republic of Tanzania
Chair of the United Nations Board of Auditors
(Lead Auditor)

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor-General of India

30 June 2015

Chapter II
Long-form report of the Board of Auditors

Summary

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) provides assistance and protection to more than five million registered Palestinian refugees to help them achieve their full potential in terms of human development. UNRWA employs approximately 30,600 area staff at its five field operations in Gaza, Jordan, Lebanon, the Syrian Arab Republic and the West Bank, as well as at its headquarters in Amman and Gaza.

UNRWA is primarily funded through voluntary contributions. During 2014, total contributions of $1,321.19 million came from voluntary contributions of $1,276.84 million (97 per cent) and total expenses amounted to $1,298.49 million.

The Board of Auditors audited the financial statements and reviewed the operations of UNRWA for the year ended 31 December 2014 in accordance with the General Assembly resolution 74 (I) and in conformity with the International Standards on Auditing. The audit was carried out through the examination of financial transactions and operations at UNRWA headquarters in Amman and at its field offices in Jordan, Lebanon and the West Bank.

Scope of the report

The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly; it has been discussed with UNRWA management, whose views have been appropriately reflected.

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNRWA as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UNRWA operations under financial regulation 7.5 of the Financial Regulations and Rules of the United Nations, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board examined four key UNRWA programmes, including: the health programme; the education programme; the relief and social services programme; and the infrastructure and camp improvement programme. The report also includes a brief commentary on the status of implementation of the recommendations made in the previous year.

Audit opinion

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of UNRWA as at 31 December 2014 and its

financial performance and cash flow for the year then ended, in accordance with IPSAS. That opinion is reflected above, in chapter I of this report.

The Board also issued a separate unmodified audit opinion on the financial statements of the UNRWA Area Staff Provident Fund for the year ended 31 December 2014, prepared in accordance with the International Financial Reporting Standards. In addition, the Board performed an annual audit of the Microfinance Department and issued an unmodified opinion on its financial statements for the year ended 31 December 2014.

Overall conclusion

The Board did not identify any significant deficiencies in the presentation of the financial statements, although it found some weaknesses in the application of IPSAS, despite its previous recommendations and management's commitment to address the underlying causes of non-compliance, which necessitated adjustment of the financial statements. The Board will continue to assess this initiative in the future.

The Board once again noted persistent problems with the unreliability and unpredictability of revenue sources, despite action by UNRWA to widen its donor base and the introduction of austerity measures, which resulted in the deferment of payments to suppliers and to the recording of deficits in the General Fund for three consecutive years. UNRWA also faces challenges in core service delivery and financial management, especially at field-level operations, including non-compliance with existing directives and regulations, such as inappropriate management and disposal of medical supplies, excessive re-tendering and the engagement of suppliers without signed contracts, as well as the operation of educational services in poor environments where, contrary to the UNRWA education reform strategy, necessary facilities are inadequate.

These deficiencies need to be addressed urgently in order to ensure the efficient and effective delivery of the UNRWA mandate.

Key findings

The Board has identified a number of issues that need to be considered by management in order to enhance the effectiveness of UNRWA operations. The Board highlights the following key findings in particular.

Financial overview

Overall financial performance of UNRWA

Total revenue for 2014 was $1,342.19 million compared with $1,141.92 million in 2013, an increase of $200.27 million (18 per cent). Total expenses amounted to $1,298.49 million compared with $1,118.46 million reported in 2013, an increase of 16 per cent. The statement of financial performance closed with a surplus of $43.7 million. However, the overall surplus is primarily due to a surplus of $108.53 million in the emergency appeal funds. All other funds had deficits, as shown in their segment reports. Compared to 2013, the surplus for emergency appeal funds has significantly increased, by $101.11 million (equivalent to 1,365 per cent) from $7.41 million reported in 2013. UNRWA attributed the increase to late receipt of donors' contributions for 2014 appeals, which were used in 2015. Furthermore, due to the ongoing conflict in the Gaza Strip, purchases for most of the construction projects were delayed and the respective expenses were deferred to 2015.

As in the previous year, the General Fund closed with a deficit, although the size of the deficit had decreased, from $60.57 million in 2013 to $30.38 million in 2014. The reported deficit in the General Fund includes $81.10 million, comprising projected severance expenses of $35.11 million for the period and non-cash expenses, consisting of depreciation costs ($24.58 million), losses on the disposal of assets ($1.35 million), provision of doubtful debts ($19.46 million) and impairment loss ($0.60 million). UNRWA total liabilities as at 31 December 2014 were $671.20 million (2013: $660.73 million), representing an increase of $10.47 million. The largest portion of the reported liabilities relates to end-of-service liabilities for area staff amounting to $524.54 million, which constitute 78 per cent of the Agency's total liabilities.

Preparation of financial statements

In its previous report (A/69/9/Add.4), the Board identified weaknesses in the preparation of the UNRWA financial statements emanating from an inadequate understanding of IPSAS requirements and recommended that UNRWA identify specific IPSAS requirements that are more important for the preparation of financial statements and that it conduct training for relevant staff in order to enhance compliance with IPSAS. During 2014, the Board noted limited improvement in this area, citing significant deficiencies that remained in the recognition, measurement and accuracy of figures in the financial statements due to inadequate review of accounts at the field level.

The deficiencies included: inaccurate computation of impairment loss, which resulted in an understatement of such loss by $1.04 million for the field offices in Gaza and the Syrian Arabic Republic; overstatement of value-added tax (VAT) in accounts receivable by $1.6 million as a result of translating VAT income using the transaction exchange rate for the month of occurrence instead of the closing rate; and unrecognized contribution revenue and receivables amounting to $16.83 million from a two-year binding agreement, with no conditions attached, between UNRWA and a donor. While these accounts were adjusted during the audit, the Board remains convinced that additional measures are necessary to further improve the preparation of the financial statements.

Education programme management

The Jordan field office operates 51 (29 per cent) of its schools in rented buildings. During visits to eight schools operating in rented buildings, the Board found that five lacked the basic facilities required for teaching, including laboratories, libraries and sufficient school furniture. In addition, classrooms in most of the schools were overcrowded, at rates ranging from 36 to 106 per cent when measured against the maximum number of 13 to 28 students agreed upon in the lease contracts. The Board is concerned that this situation could adversely affect student interaction and concentration during classes.

Although five of the schools visited had a total of 187 students with special educational needs, they did not conduct special programmes or additional classes for such students, as required under the UNRWA education reform strategy for 2011-2015. Furthermore, in most cases the school infrastructure did not support students with impaired mobility, contrary to the education reform strategy and the medium-term strategy for the period 2010-2015. According to the UNRWA report on the student dropout rate, produced by the Jordan field office in 2010, 298 special educational needs students had dropped out due to the fact that there was inadequate infrastructure provided for them. The Agency attributed these deficiencies to the lack of space near refugee camps, but stated that it had secured a piece of land (4,167 square meters) and planned to begin construction of a new school in 2015.

Health programme management

The UNRWA policy on inventory management requires that the Agency maintain a buffer of approximately 25 per cent of the annual requirement for essential medical supplies at any given time. However, the Board found cases where the central pharmacy at the Jordan field office had run out of essential drugs due to various factors, including inadequate space with the required temperature to store certain drugs and delayed deliveries from suppliers. The deficiencies in inventory management were also noted by the World Health Organization (WHO), which reported on the limited storage capacity and the lack of cargo elevators for moving medical supplies. WHO also recommended that the central pharmacy be expanded.

In addition, the Board found that medical supplies had been comingled with basic commodities in the warehouses of the Procurement and Logistics Division and that expired drugs awaiting disposal in the central warehouse had been stored with other drugs, contrary to the WHO guidelines of 2003 on good storage practices for pharmaceutical drugs. Mixing good and expired drugs as well as basic commodities in the same area increases the risk of issuing expired drugs to patients and has an adverse impact on the quality of medical supplies. The Board considers that the timely disposal of expired items would free additional space for unexpired medical supplies. UNRWA agreed that the lack of essential medical supplies was partly caused by its limited storage space and by the delay in delivery from suppliers.

Procurement and contract management

All 22 tenders for the construction of shelters at the Jordan field office issued in 2014 were re-tendered. Normally re-tendering takes 121 to 200 days, causing substantial delay in the procurement process and in the intended service delivery date, as well as increasing costs. In one instance, the advertisement cost for re-tendering was approximately $16,300. Re-tendering may also result in depleting the supplier base and reducing the number of bidders in subsequent tenders for the same item.

The Board also noted cases where outsourced work commenced prior to the signing of contracts. For example, 23 (96 per cent) out of 24 hospitalization contracts reviewed by the Board at the Lebanon field office were signed three to five months after the effective start date, contrary to chapter 9, paragraph 4.6, of the UNRWA procurement manual (2012), which requires that a service contract not begin until it is signed. While no clear explanations were obtained from UNRWA, the Board considers that the deficiency was mainly due to inadequate monitoring of the service contracts.

Moreover, the Board noted that UNRWA did not make performance evaluations before extending the hospitalization contracts. Non-evaluation of performance of hospitals prior to extension of contracts may expose the Agency to the risk of engaging hospitals with unsatisfactory performance, while engaging service providers without signed contracts denies the Agency its legal rights in the event of a dispute.

Information and communications technology

The Board found that the existing disaster recovery plan developed in February 2014 did not cover the information and communications technology systems hosted at the outsourced data centre at the United Nations Logistics Base in Brindisi, Italy. A disaster affecting that centre could result in the loss of key data.

The implementation of the new enterprise resource planning system was implemented on 19 April 2015. The Board found that the back-up policy and procedure for the provision of user access to the new system have not been reviewed to reflect the new operations. Additionally, the hosting of the new planning system and its corresponding middleware application (named Citrix) is outsourced to a third party, but the contract with the vendor has not yet been signed. The Agency has not yet agreed on a date for signing the outsourced service contract or for providing users with access to the new system.

The Board has made several recommendations based on its audit that are contained in the body of the report. The main recommendations are that UNRWA:

(a) **Establish a rigorous review process at field level to prevent the recurring deficiencies in financial statements preparation and presentation; and ensure that officers involved in the preparation of financial statements at the field level get adequate support from Headquarters on the practical application of IPSAS requirements;**

(b) **Consider developing long-term plans for replacement of the schools being operated in rented buildings and short-term solutions for equipping the rented schools; and, given the limited resources of the Agency, continue with efforts to mobilize funds to meet the costs of land and construction;**

(c) **Allocate learning resource rooms in existing schools to enhance the implementation of programmes for special educational needs students; and mobilize sufficient resources to renovate existing school buildings so as to allow easy access for students with mobility problems;**

(d) **Allocate temporary storage space to provide adequate drug storage; and expedite installation of new rooms with prescribed temperatures requirements to provide enough cold storage space for drugs that need to be stored at temperatures below 8 degrees centigrade;**

(e) **Consider conducting a cost-benefit analysis prior to re-tendering and set criteria to evaluate whether to re-tender or negotiate with the lowest bidder; and facilitate, on request, site visits by interested bidders, to enable a proper definition of the scope of work and cost estimates;**

(f) **Ensure that all service contracts are signed before services are delivered to make them legally binding; and evaluate supplier performance before extending service contracts;**

(g) **Update the disaster recovery plan to include the critical systems of the outsourced data centre; review the back-up policy and procedures for new users' access to reflect requirements of the new enterprise resource planning system; and expedite the signing of contracts with the vendor hosting the new system and Citrix.**

Key facts

5.03 million	Population of Palestinians refugees served by UNRWA
30,550	UNRWA area staff (local staff)
150	UNRWA international staff
3,814 buildings	1,640 Gaza, 702 Jordan, 390 Lebanon, 654 West Bank, 428 the Syrian Arab Republic
$278.75 million	Procurement cost in 2014
More than 500,000 students	$488.10 million spent in education programme in 2014
778 schools	Provides primary and secondary education to Palestine
10 million	Patients visiting UNRWA health centres annually
139	Health centres

A. Mandate, scope and methodology

1. The United Nations Relief and Works Agency for Palestine Refugees in the Middle East (UNRWA) was established by General Assembly resolution 302 (IV) of 8 December 1949 and became operational on 1 May 1950. It is a subsidiary organ of the Assembly within the United Nations system. The mandate of UNRWA is to help Palestinian refugees achieve their full potential in terms of human development under difficult circumstances, consistent with internationally agreed goals and standards. UNRWA is one of the largest United Nations programmes, serving more five million Palestinian refugees in the Gaza Strip, Jordan, Lebanon, the Syrian Arab Republic and the West Bank. UNRWA is also one of the largest employers in the Middle East, with approximately 30,700 staff, most of whom are Palestinian refugees. UNRWA has 778 schools, accommodating approximately 533,968 students and 26,500 educational staff, as well as 139 health centres across the region serving more than 10 million patients annually. UNRWA also assists some 280,000 of the poorest and most vulnerable refugees with special needs, including people with disabilities.

2. The Board of Auditors has audited the financial statements of UNRWA and has reviewed its operations for the year ended 31 December 2014 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with regulation 12.2 of the Financial Regulations of UNRWA and the International

Standards on Auditing. The latter standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNRWA as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing body and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations of the Agency. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered it necessary in order to form an opinion on the financial statements.

4. In addition to the audit of the financial statements, the Board carried out reviews of UNRWA operations in accordance with regulation 7.5 of the Financial Regulations and Rules of the United Nations. Specific areas covered during audit include treasury and cash management, education programme management, health programme management, budget management, procurement and contract management, property management, relief and social services programme management, human resources management, assets management, project and programme management, results-based management and information and communications technology.

B. Findings and recommendations

1. Follow-up to previous recommendations of the Board

5. The Board noted that of the 60 recommendations outstanding as of 2013, two (3 per cent) had been fully implemented, 50 (84 per cent) were under implementation and five (8 per cent) had been overtaken by events; the Agency had disagreed with one (2 per cent) recommendation made by the Board.. In comparison, the status of implementation as of 31 December 2012 indicated that 12 (48 per cent) of the recommendations had been fully implemented and 12 (48 per cent) were under implementation; the Agency had disagreed with one (4 per cent) recommendation.

6. Of the 50 recommendations under implementation, six (12 per cent) depend on the launch of the new enterprise resource planning system. The recommendation with which the Agency had disagreed relates to funding of the end-of-service liability. In the opinion of the Agency, that recommendation should be submitted to the General Assembly for its consideration since the matter is linked to the solution of the Palestinian refugee issue and not to the UNRWA mandate. The Board nevertheless maintains its view that this liability is within the scope of the UNRWA financial statements and that the Agency should therefore communicate with the Assembly on this matter in order to obtain a firm commitment on the settlement of this liability.

7. Details regarding action taken in relation to the recommendations outstanding as of 2013 are summarized in annex I below.

2. Financial overview

8. In 2014, UNRWA reported total revenue of $1,342.19 million (2013: $1,141.92 million) and total expenses of $1,298.49 million (2013: $1,118.46 million), resulting in a surplus of $43.7 million.

9. The General Fund, which finances core activities, recorded revenue of $637.18 million (2013: $618.29 million) and expenses of $667.56 million (2013: $678.86 million), resulting in a deficit of $30.38 million (2013: $60.57 million). The reported deficit in the General Fund includes $81.10 million, comprising projected severance expenses of $35.11 million for the period and non-cash expenses from depreciation of $24.58 million, loss on disposal of assets $1.35 million, provision of doubtful debts of $19.46 million and impairment loss of $0.60 million. Financial performance, by fund, is summarized in table II.1.

Table II.1
Financial performance by fund
(Millions of United States dollars)

	Unearmarked activities	*Earmarked activities*					
	General Fund	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund balances*	*Total*
Revenue	637.18	32.08	9.13	343.89	352.69	(32.79)	1 342.19
Expenses	667.56	47.06	9.62	235.37	371.43	(32.54)	1 298.49
Surplus/(deficit)	**(30.38)**	**(14.98)**	**(0.48)**	**108.52**	**(18.75)**	**(0.24)**	**43.7**

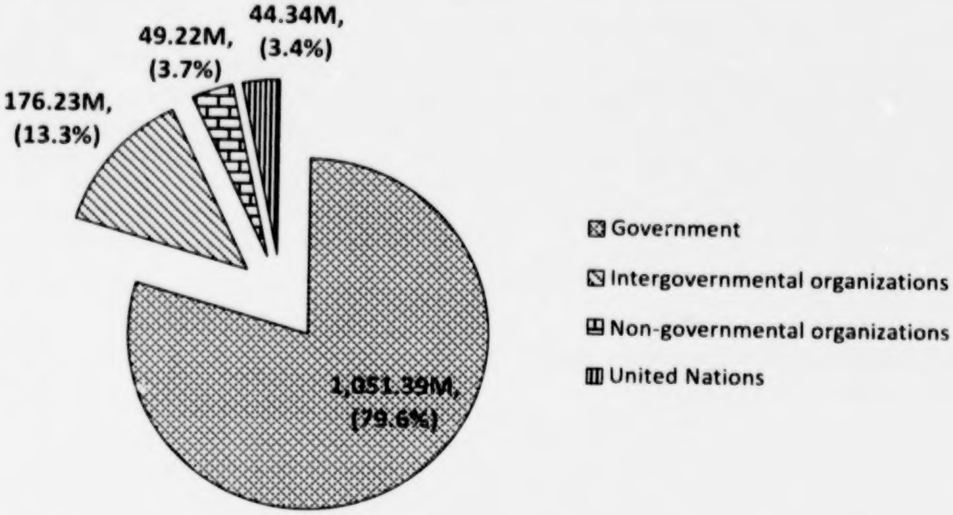
Source: UNRWA financial statements for 2014.

10. The 2014 deficit of $18.75 million in projects funds arose because some projects were executed and expenses accounted for in 2014, while the related revenue was received and recorded in prior years. The deficit of $14.98 million in restricted funds occurred because some donors transferred their contributions from the restricted funds to the social safety network programme in the General Fund core budget in 2014.

Revenue analysis

11. Voluntary contributions form a major part of the Agency's revenues. During 2014, UNRWA received total contributions of $1,321.19 million (2013: $1,122.07 million), of which $1,276.84 million (97 per cent) represents voluntary contributions from various donors. The remaining $44.35 million (2013: $44.89 million), equivalent to 3 per cent, was received from the United Nations regular budget towards the costs of international staff. In comparison with the previous year, voluntary contributions increased by $199.12 million (18 per cent). The increase is a result of operationalization of the Agency's resource mobilization strategy, endorsed by the Advisory Commission in November 2011, specifically for deepening partnerships with traditional donors, diversifying the donor-base and developing improved cross-Agency capacity to mobilize resources and manage donor relations. A breakdown of revenues is provided in figure II.I.

Figure II.I
Voluntary contributions by source of revenue



Source: Extracted from UNRWA financial statements (notes Nos. 20 and 21).

Expense analysis

12. Wages, salaries and other employee benefits of $651.50 million (2013: $628.04 million) out of the total expenses of $1,298.49 million (2013: $1,118.46 million) or 50.17 per cent (2013: 56 per cent) means that a significant proportion of UNRWA expenses was used on the entity's provision of core programme services. The reported total for wages, salaries and employee benefits includes area staff costs of $546.65 million (2013: $522.70 million) or 83.91 per cent and international staff of $43.74 million (2013: $44.74) or 6.71 per cent. The remaining balance represent UNRWA contributions to the area staff provident fund of $52.40 million (2013: $51.92 million) or 8.04 per cent, and health-related expenses of $8.71 million (2013: $8.68 million) or 1.34 per cent.

Subsidies

13. In 2014 subsidies to refugees increased by 50.37 per cent, from $156.75 million in 2013 to $235.71 million. The significant increase in subsidies was due to increase in emergency assistance to refugees affected by the disturbed conditions in the Syrian Arab Republic and the Gaza Strip. The emergency assistance included basic food, cash subsidies and additional income supplements for the most vulnerable Palestinian refugees. The conflict in the Syrian Arab Republic and the Gaza Strip also affected the social services offered to refugees. In the Syrian Arab Republic, for example, the Board found that UNRWA had closed 70 schools and used 39 government schools on a loan basis for 27,524 students. Nine health centres and two contracted hospitals in Yarmouk were also closed (Palestine hospital and Fayez Halaweh hospital in Gaza). In addition, one school in the Gaza Strip that suffered major damage was closed while 18 schools were used as centres for 12,487 students affected by the conflict.

Statement of financial position

Cash and cash equivalents

14. The UNRWA statement of financial position as at 31 December 2014 reported a cash balance of $305.45 million (2013: $278.40 million), an increase of $27.05 million (9.72 per cent). However, out of the $305.45 million, only $3.04 million (1 per cent) was available to the General Fund, which finances the Agency's core operations, thus creating a strain on the Agency's resources for such operations. The majority of the cash balance related to project funds ($156.47 million, 51.23 per cent) and emergency appeals ($134.97 million, 44.19 per cent), while the cash balances relating to restricted funds and the Microfinance Department were $1.03 million (0.34 per cent) and $9.95 million (3.26 per cent), respectively. The increased cash in emergency appeals funds was due to the increase in humanitarian aid provided in the Gaza Strip and the Syrian Arab Republic in response to the ongoing conflict.

Accounts receivable

15. The accounts receivable balance decreased by $9.56 million from $52.17 million in 2013 to $42.61 million in 2014. Of the $42.61 million in accounts receivable, $35.96 million (84.39 per cent) represents value-added tax (VAT) receivables. The large portion of the VAT receivables of $32.60 million (90.67 per cent) originates from the Palestinian Authority, which has been accrued for a period of 19 years, while the remaining balance of $1.58 million (4.39 per cent) and $1.78 million (4.94 per cent) comes from the Governments of Israel and Lebanon, respectively. Dialogue between UNRWA and the Palestinian Authority on the recoverability of VAT receivables is under way.

Inventories

16. As of 2014, the UNRWA accounting policy allowed work in progress on shelters to be recognized as inventory, and as such shelters are expensed when they are handed over to the refugees. The decrease in inventory in the amount of $6.45 million (7.01 per cent) in 2014 to $85.56 million (2013: $92.01 million) resulted from this change in policy and signifies a transfer of assets from UNRWA.

Accounts payable and accruals

17. Payables and accruals decreased by 16.82 per cent, from $104.05 million reported in 2013 to $86.55 million in 2014. The decrease in payables and accrues was mainly due to the timely disbursement of contributions due to the Provident Fund and the payment of accrued salaries and other expenses. For example, the Board noted that the contribution due to the Provident Fund was accrued for one month compared to three months as reported in the previous year.

Ratio analysis

18. Table II.2 contains key financial ratios extracted from the financial statements, mainly from the statements of financial position and financial performance.

Table II.2

Ratios of key financial indicators

(Millions of United States dollars)

Ratio	*2013 (all funds)*	*General Fund 2014*	*2014 (all funds)*
Cash/total assets[a]	0.31	0.01	0.31
Current ratio (Current assets/current liabilities)[b]	2.41	0.66	3.03
Cash ratio (Cash short-term investments/current liabilities)[c]	1.67	0.02	1.96
Total assets/total liabilities[d]	1.35	0.85	1.48
Quick ratio[e] (Cash + investments + accounts receivable: current liabilities)	2.14	0.53	2.52
Defensive interval ratio (days)[f] (Current assets/total expenses)	129	53	147

[a] A high indicator (1 and above) depicts a healthy financial position of the Agency.

[b] A high ratio (1 and above) indicates an entity's ability to pay off its short-term liabilities.

[c] A ratio below 1 is a reflection that insufficient cash is available to settle current liabilities.

[d] A high ratio (1 and above) is a good indicator of solvency.

[e] Quick ratio is a better indicator of the Agency's financial solvency, the higher the better (above 1).

[f] A favourable indictor is the number of days above 30.

19. The financial ratios at the end of the financial year showed that UNRWA was able to meet its maturing current liabilities. However, the cash-to-current liabilities ratio for the General Fund, which finances core activities of the Agency was 0.02, indicating that the Agency had insufficient cash to finance its core current liabilities as they fell due. In addition, the General Fund had current assets of only $0.66 to finance each dollar of its outstanding debt, while for quick ratio it had only $0.53 to cover immediate current liabilities, which are below the normal threshold indicator of 1.

3. End-of-service liabilities, including after-service health insurance

Unfunded area staff end-of-service liabilities

20. In its previous report (A/69/5/Add.4, chap. II, para. 20), the Board expressed its concern over the magnitude of the reported unfunded area staff end-of-service liabilities, which amounted to $491.72 million for 2013. This liability has been growing steadily, and at the end of 2014 UNRWA reported a liability for area staff end-of-service benefits amounting to $524.54 million, an increase of $32.82 million (6.67 per cent) compared with the previous year. The increase was mainly due to past service costs of $34.81, interest costs of $23.16 million and payments of $13.93 million during 2014.

21. Despite the fact that end-of-service benefits liabilities are currently not funded, the Board noted practices that will contribute to the increase in such liabilities, including the fact that, as from 1 January 2015, UNRWA has increased the percentage used to calculate retirement benefits from 11 to 12 per cent of basic

salary. According to the actuarial report there will be an increase of $18.05 million due to the change in the calculation formula, which will ultimately increase liabilities.

22. The Board is of the view that the expected increase in the end-of-service formula and the prolonged period of service will impact the balance of unfunded end-of-service liabilities and consequently increase the risk of cash outflow to meet the those obligations when they fall due.

23. **The Board recommended that UNRWA: (a) liaise with United Nations Headquarters to obtain confirmation on the approach to be followed to settle its end-of-service liabilities; and (b) avoid decisions that increase these liabilities while its funding is still uncertain.**

4. Review of financial statements

24. In its previous report (A/69/5/Add.4, para. 31) the Board raised its concern over inadequate knowledge about the application of IPSAS and recommended that UNRWA identify specific IPSAS requirements that are more important for the preparation of financial statements and conduct training for staff of the Finance Department and other departments in order to enhance compliance.

25. During 2014, the Board noted limited improvement, but observed that deficiencies remain that indicate inadequate review of the financial statements at the field level. Weaknesses were found in the recognition and measurement of assets and liabilities as well as with the accuracy of figures in the financial statements, as follows:

(a) Translating VAT receivables using the transaction exchange rate of the month of occurrence rather than the closing rate, as required by IPSAS, overstated the VAT receivables by $1.6 million;

(b) Inaccurately computing impairments caused an understatement of impairments by $1.04 million for field offices in Gaza and the Syrian Arab Republic;

(c) Non-recognition of contribution revenue and receivables amounting to $16.83 million for donor agreements;

(d) Understatement of inventory holdings by $1.05 million due to classification of inventory as non-inventory;

(e) Non-timely performance of reconciliation of confirmation letters regarding balances payable at year-end to identify unrecorded payables or payments to vendors, as required under section 3.3.1, paragraph 45, of the financial technical instruction of 2013;

(f) Non-disclosure of fully depreciated property, plant and equipment amounting to $0.809 million in the financial statements;

(g) Overstatement of prepayment balances amounting to $1.93 million in respect of health insurance for staff of West Bank field office due to non-amortization of the expired amount.

26. All inconsistencies noted by the Board were adjusted by UNRWA, except for the expensed inventory amounting to $1.05 million as non-inventory, which did not materially affect the fair presentation of the financial statements. The Board

considered that the inconsistencies in the presentation, recognition, measurement, disclosure and accuracy of figures in the financial statements were a result of an inadequate review process of financial information during the preparation of the financial statements at the field level and limited knowledge of IPSAS requirements.

27. **The Board recommends that UNRWA: (a) establish a rigorous review process of its financial information during the preparation of financial statements at field offices in order to reduce the recurring non-compliance with accounting policies and procedures evident in some fields; (b) ensure that officers involved in the preparation of financial statements at the field offices have adequate support from Headquarters with regard to the practical application of IPSAS requirements; and (c) ensure that the reconciliation of vendors balances at year-end is done in order to identify unrecorded payables or payments.**

5. Treasury and cash management

Recovery of VAT receivables

28. On 9 December 1994, UNRWA entered into a legal agreement with the Palestinian Authority to operate in the West Bank and Gaza Strip. The agreement requires that any goods imported or exported by national or international bodies on behalf of UNRWA in the performance of its functions be exempted from all customs duties, taxes, charges or prohibitions, and that they be treated as UNRWA imports or exports.

29. UNRWA submits monthly returns to the Palestinian Authority to reclaim VAT paid, including any outstanding amounts for the previous periods. However, out of the gross outstanding VAT receivables of $100.12 million at 31 December 2014, $96.65 million (97 per cent) was receivable from the Authority. Moreover, a proportion of the VAT receivables from the Authority had been accrued over a period of 19 years. Non-recovery of the VAT receivables paid in respect of the services rendered is inconsistent with the agreement between UNRWA and the Authority and adversely affects the Agency's financial position. For example, at the end of 2014, UNRWA had to create a provision of $64.16 million to reflect uncertainty over recoverability of the VAT receivables.

30. UNRWA representatives provided the Board with a letter dated 22 August 2013 requesting VAT exemption on all future payments, and reported that they had also convened several meetings with the representatives of the Palestinian Authority in the Gaza Strip and the West Bank on VAT arrears. The Board is concerned, however, that no specific strategy has been initiated to recover VAT arrears.

31. **UNRWA agreed with the recommendations of the Board that it: (a) review its follow-up strategy to improve and strengthen its efforts to collect the long outstanding VAT arrears; and (b) review the collectability of the receivables and impair the value for amounts considered as uncollectable.**

6. Highlights of the programme budget

Management of budget deficit

32. In recent years UNRWA has experienced a series of budget deficits that prompted the Commissioner-General to invoke austerity measures. The Board noted that the main concern was over the growth rate of the forecasted cash deficit for the General Fund. For instance in 2015, the forecasted deficits for the months of October, November and December were $44 million, $69.1 million and $105.4 million, respectively. The areas identified for austerity measures include international travel, travel within the UNRWA areas of operation, business class travel, in-personal interviews, venues for trainings workshops and international consultancy contracts.

33. The components identified for austerity measures account for $10.62 million (1.57 per cent) of the total budget of the General Fund of $676.91 million. On 31 December 2014, the recorded net saving from the austerity measures was $1.02 million (0.15 per cent) of the total budget of the Fund while the reported deficit was $30.38 million.

34. The Board noted that while the austerity measures have not been effective enough, UNRWA does not have a proper mechanism of monitoring or quantifying their results in reducing the deficit in the General Fund.

35. **The Board recommends that UNRWA develop a mechanism of tracking and quantifying the net savings from austerity measures at all levels of operation and evaluate their effectiveness.**

Relief and social services programme management

36. The microcredit community support programme, a subprogramme of the Relief and Social Services Department of the Agency, aims to promote the socioeconomic development of Palestinian refugee communities and to increase the individual household assets of vulnerable Palestinian refugees through supporting community-managed funds, the main purpose of which is to (a) provide financial and non-financial services to vulnerable refugees and increase their access to credit opportunities at the community level; and (b) increase the financial revenues of community-based organizations in order to support their programmes, community projects and activities.

37. The Board reviewed the operations of the microcredit community support programme to ascertain the level of achievement with the set objectives and noted that UNRWA has not yet evaluated the achievements of the programme. The Agency has attempted to evaluate the performance of the programme and to assess its impact on refugees using commissioned consultants, but this was not successful because the consultant could not quantify the impact of the programme on the beneficiaries because the Agency lacked data and other records to support an evaluation. The Board is of the view that the absence of an adequate management information system limits the ability of UNRWA to obtain accurate and consistent information for decision-making and for aggregation in the general financial statements.

38. At the Jordan field office the Board noted that only 13 (54 per cent) out of 24 community-based organizations had used the community-managed funds scheme and that the office had issued loans to those organizations totalling $575,000. The Board found that the memorandum of understanding guiding operations between

UNRWA and the community-based organizations was still in draft form with the legal unit for its review and finalization. The memorandum was expected to be shared with the organizations by mid-April and finalized by the end of June 2015. Granting loans to such organizations without a signed memorandum may limit the ability of the Agency to oversee the performance of the organizations and may weaken its legal position with regard to claiming the repayment of the loans it has issued in the event of default.

39. **UNRWA agreed with the Board's recommendation that it: (a) develop an Agency-wide management information system to harmonize information on the microcredit community support programme for the purpose of decision-making and to enable impact assessment, as well as the aggregation of data in the general financial statements; and (b) expedite finalization of the memorandum of understanding to make it legally binding.**

Lack of documented criteria for issuing additional loans

40. In 2014, the Lebanon field office had a portfolio of 636 loans amounting to $2.63 million, of which $346,897 (13.19 per cent) was reported to be at risk while 60 loans amounting to $11,451 were in arrears. According to the loan arrears report on the microcredit community support programme, two borrowers received top-up loans[1] before fully repaying their previous loans, while the criteria for issuing the additional and top-up loans are not addressed in the loan policy and guidelines.

41. UNRWA stated that while there are no documented criteria for issuing additional loans, the current practice is based on the client's credit history in repaying for any default or delinquency during the period of the previous loan, and, in particular, that business sustainability and capacity to pay for another loan are among the criteria considered. However, the Board considered that the absence of documented criteria for granting additional loans increases the risk of issuing loans to ineligible entities, which could lead to non-recovery.

42. **UNRWA agreed with the recommendation of the Board that it formally define and document the criteria for issuing additional loans.**

7. Property management

Lack of buildings maintenance policy and database

43. Paragraph F (1) of the UNRWA technical services instruction No. 2 of 1992 requires that standards of work be periodically determined by the head of the Technical Office in coordination with Technical Officers in the field. As at 31 December 2014, in delivering its mandated activities to Palestinian refugee population, UNRWA maintained 3,814 buildings, valued at $460.55 million, scattered over its five areas of operation. UNRWA performs various categories of maintenance, including routine maintenance, general maintenance, comprehensive maintenance and unforeseen repairs. However, the maintenance services are decentralized, and each field technical officer is expected to periodically issue local guidelines determining the standards of maintenance work. The Board noted that the Agency does not have a maintenance policy guiding construction work.

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[1] "Top-up loan" is one in which the client should have completed at least 80 per cent of the loan repayment in order to be entitled to a subsequent loan.

44. The Board also noted that UNRWA has no database for recording the maintenance of its buildings and the related costs, a deficiency that might affect the tracking of maintenance information. The lack of a comprehensive maintenance policy limits the development of Agency-wide harmonized maintenance standards. UNRWA stated that a policy and database to ensure that its maintenance programmes are well managed and monitored was being developed and that it is expected to be completed by the end of 2015. The Board is of the view that the Agency needs to expedite the development of a comprehensive policy and database, which will provide a framework to ensure Agency-wide harmonized maintenance standards.

45. **UNRWA agreed with the recommendations of the Board that it: (a) expedite the process of developing its maintenance policy to guide buildings maintenance work; and (b) develop a database system for maintenance records to provide reliable information for decision-making.**

8. Procurement and contract management

Shortened tender period

46. Chapter 4.1.3, paragraph 1of the UNRWA procurement manual (2012) requires that the Agency provide adequate time for tendering in order to allow potential suppliers time to prepare their applications. According to the manual, the period between the notice of invitation for prequalification and the deadline for submission of applications should not be less than 21 days.

47. The Board reviewed eight tenders and noted that tender periods for four tenders (50 per cent) were shortened without proper approval. UNRWA informed the Board that the reason for shortening the tender period was to meet deadlines set by the engineers in order to complete work on time. The shortened tender periods varied from 3 to 14 days below the required period (21 days) for invitation to bid. The Board is aware that chapter 5.4.1, paragraphs 1 and 2, of the manual provide for the provision for waivers, but this is subject to approval from the relevant authority.

48. The Board considers that the shortening of tender periods occurs mainly due to inadequate procurement planning and to the predetermined timing of implementation from user departments. Shortening of tender submission timeframes may result in low vendor responses on invitations, which could, eventually, limit competition.

49. **UNRWA agreed with the recommendation of the Board that it ensure that in all procurement waivers and deviations from the provisions of the UNRWA procurement manual (2012), are requested and approved by the director of the respective field office or from the Chief of the Procurement and Logistics Division.**

Repetitive re-tendering

50. According to the tender register from the infrastructure and camp improvement programme at the Jordan field office, all 22 tenders floated in 2014 for shelter constructions were re-tendered. From a sample of eight tenders for schools and shelter constructions (cost: $2.61 million), the Board found that four (50 per cent), amounting to a cost of $0.45 million, were re-tendered two to three times without detailed analysis to justify the decisions.

51. The Board noted cases where the subsequent tender prices accepted by UNRWA were above the previous bids. For example, in the case of tender No. CT/38/2013 (batch 2 of group 1-Husn Camp), the lowest bid price in the first tender was $84,323 while the awarded lowest bid price in the third re-tendering for the same requirements was $92,874. Re-tendering takes 121 to 200 days and causes substantial delays in the procurement process and in the intended service delivery. In addition, re-tendering increases costs. In the above example, the advertising cost for re-tendering was approximately $16,300. Re-tendering may also result in a depletion of the supplier base and a reduction in the number of bidders in subsequent tenders for the same work.

52. The Board noted that repetitive re-tendering is mainly due to low project budgeting, low engineering estimates, overspecifications and inadequate pre-bid meetings on site. The lack of clear guidance on when to re-tender or to negotiate based on time and price differences between the lowest bid price and the engineers' estimates, and lack of regular review of those estimates to reflect the current market price, also contribute to the repetitive re-tendering.

53. In addition, the Board noted cases where contracted work started prior to the signing of contracts. For example, 23 out of 24 hospitalization contracts reviewed by the Board at the Lebanon field office were signed three to five months after the effective start date, contrary to chapter 9, paragraph 4.6, of the UNRWA procurement manual (2012), which requires that work not commence until service contracts are signed. While no clear explanations were obtained from UNRWA, the Board considers that the deficiency was mainly due to inadequate monitoring of the service contracts.

54. The Board also noted that UNRWA did not make performance evaluations before extending hospitalization contracts. Non-evaluation of hospital performance prior to extending contracts may expose the Agency to the risk of engaging hospitals with unsatisfactory performance. Moreover, engaging service providers without signed contracts weakens the Agency's legal rights and protection in the event of disputes.

55. **UNRWA agreed with the recommendations of the Board that it: (a) establish mechanisms to allow regular review of engineers' estimates prior to tendering, which will help the Agency to arrive at cost estimates based on the prevailing market price; (b) review the re-tendering trend and establish ways of minimizing it; and (c) facilitate site visits by interested bidders to enable proper evaluation of the scope of work and cost estimates.**

56. **UNRWA also agreed with the recommendations of the Board that it: (a) ensure that all service contracts are signed before service delivery to make them legally binding; and (b) conduct performance evaluations of previous services rendered before extending service contracts.**

Non-preparation of consolidated procurement plan (master plan)

57. Chapter 3.1 of the UNRWA procurement manual (2012) requires that, as good practice, regular procurement planning sessions be held involving all project and procurement personnel in each department and field office. The outcome of the department or field office procurement planning will generate the information required for the Agency's procurement plan.

58. The Board noted that the Agency's headquarters departments prepare individual procurement plans for basic commodities, medicine and medical supplies, which are procured centrally at headquarters, together with motor vehicles and spare parts. Procurement of other items is decentralized and delegated to the field offices. However, the Board found that the centrally prepared individual plans are not consolidated and that the quality of the plans is not reviewed or approved by any committee even though headquarters procurement actions are based on those plans.

59. The Board also noted that all field offices lack formal procurement plans. In most cases field offices prepare workplans that do not include key elements of the procurement plan, including items to be procured; procurement methods; estimated amounts; the type of procurement; a specified range of time from tendering to contract award; and proposed tender numbers. UNRWA stated that it was in the process of reviewing its policies and standard operating procedures, which will facilitate the preparation of a consolidated procurement plan. The Board considers that an effective procurement plan is essential for identifying and obtaining economies of scale through the consolidation of similar items into one contract or procurement action, which would also facilitate the effective monitoring and evaluation of the procurement process.

60. **UNRWA agreed with the recommendations of the Board that it: (a) expedite the review of its standard operating procedures to facilitate generation of the consolidated procurement plan and ensure that plans are approved by existing procurement committees before implementation; and (b) improve the preparation of procurement plans at the field offices to include key elements for evaluation and accountability.**

Lack of contractual remedies for pharmaceutical and medical supplies

61. The Board reviewed four purchase orders valued at $2.92 million related to pharmaceutical drugs and noted that they did not include any provision for remedial action such as liquidated damages in the event of non-performance by the vendors. Subsequently, the Board noted that goods in three of the four orders were delivered after delays ranging from 15 to 100 days, but that no action was instituted against the suppliers due to the lack of a liquidated damages provision in the respective orders. UNRWA believes that incorporating liquidated damages in the pharmaceutical and medical supplies contract might result in price increases due to the volatility in the region of operations. In addition, some delays are beyond the supplier's control, for example, when host countries refuse import clearance.

62. However, the Board considers that a provision for liquidated damages is a standard in any contract, in accordance with global best practices in contract formulation and management, and that the Agency needs to include liquidated damages in its contracts for pharmaceutical and medical supplies in order to enforce suppliers compliance, as is the case with basic commodities contracts. The Agency also needs to strengthen contract performance and maintain regular communication with suppliers through the establishment of a dedicated contract management desk within UNRWA that will act as a coordinator in the Agency's contractual relationship. The Board noted that the issue has been exacerbated by inadequate follow-up of orders, as evidenced by lack of proper correspondence in the tender files.

63. **UNRWA agreed with the recommendations of the Board that it: (a) establish a dedicated contracts management desk office within UNRWA that will act as coordinator for the Agency's contractual relationships; (b) create an effective relationship between the management and suppliers and maintain regular communication with suppliers; and (c) consider the inclusion of a liquidated damages clause in the contracts relating to medicines and medical supplies to enforce the compliance of suppliers.**

9. Education programme management

Inadequate management of schools operated in rented buildings

64. The Jordan field office operates 174 schools with more than 118,000 students, and one institution of higher learning with a Faculty of Educational Sciences and Arts with 1,285 students. Of the 1,285 students in the institution of higher learning, 650 are sponsored by UNRWA while 635 students are on a parallel education programme on a fee basis. Of the 174 schools, 123 (70.7 per cent) operate in UNRWA buildings while 51 (29.3 per cent) operate in rented buildings. The Board noted that 40 (78.4 per cent) of the rented buildings were designed and intended for residence. In addition, during its visit to eight schools, the Board found that five of the schools operating in the rented buildings lacked the basic facilities required for teaching, including science laboratories, text books libraries, computer libraries and sufficient school furniture.

65. Classrooms in most of the schools are overcrowded, with student numbers ranging from 21 to 37 as opposed to the number of 13 to 28 students agreed upon in the lease contract. In the case of the schools in rented buildings, rates of overcrowding ranged from 36 to 106 per cent, rates which might adversely affect student interaction and concentration during classes. UNRWA stated that it had secured a piece of land (4,167 square metres) where three rented schools would be combined into one school, a fully "green" school, and that construction is expected to commence in 2015.

66. Although five of the schools visited had 187 students with special educational needs, they did not conduct special programmes or additional classes for those students, as required under the UNRWA education reform strategy for 2011-2015. In addition, in most cases the schools were not equipped to support students with impaired mobility, contrary to the education reform strategy and the UNRWA medium-term strategy for the period 2010-2015. For example, at the visited schools, training facilities such as libraries, laboratories and some classes are located on the first or second floors of the buildings, which cannot be easily accessed by students with mobility challenges. According to the 2010 UNRWA report on the student — dropout rate, 298 special educational needs students had dropped out due to inadequate infrastructure for them. The Agency attributed these deficiencies to unavailability of space near the refugee camps and the lack of sufficient funds to construct new school buildings.

67. **UNRWA agreed with the recommendations of the Board that it: (a) expedite the construction of one school, namely the fully green school, for the consolidation of three schools presently being operated in rented buildings; (b) consider developing long- term plans for the replacement of schools operated in rented buildings and short-term solutions for equipping the rented schools; and (c) given the limited resources of the Agency, continue with effort to mobilize funds to meet the costs of land and construction.**

68. **The Board also recommended that UNRWA: (a) allocate learning resource rooms in existing schools to enhance implementation of special educational needs programmes; and (b) mobilize sufficient resources to renovate existing school buildings to allow easy access for students with mobility problems.**

Challenges in educational sector reforms

69. The Board found that reform initiatives in the educational sector face significant challenges that may prevent UNRWA from achieving its intended objectives, as follows:

(a) *Implementation of area and field-level education structure*: in November 2013 the Agency endorsed its teacher policy as a key element of its overall education reform strategy for 2011-2015. The policy provides milestones for the implementation of a new area and field-level organization structure. According to the policy, the new structure was to have been implemented by 1 September 2014. However implementation is lagging behind, and recruitment processes have been concluded in only three of the five areas of operation. Delay in implementation of the new structure may have an impact on the timely delivery of the intended policy objectives, that is, the strengthening of the professional development of teachers and assuring higher quality schools. UNRWA attributed the delay to the long recruitment process for education staff as most posts were waiting for the finalization of critical activities at the headquarters level, including mapping of the posts;

(b) *Governance framework*: in line with the education reform strategy, UNRWA planned to endorse a governance framework for the education department by 2012, aiming at improving management of its education programme. However, at the time of the audit in April 2015, that document was still in draft form. The delay in endorsing the governance framework has an adverse impact on monitoring of the other seven dimensions of implementation of the education reform strategy;

(c) *West Bank teacher coordinators pilot project*: the teacher policy of 2013 requires that the Agency establish a teacher coordinators pilot project at the West Bank field office to provide, inter alia, professional support to newly qualified teachers and to support teachers working in the schools. The Board found that the reform implementation plan, which was due to be implemented by 1 September 2014, had not been implemented by April 2015. UNRWA attributed the delay in implementation of the project to strike action by the area staff union, which eventually delayed the process of class formation. Following the strike at the West Bank field office, UNRWA decided to carry out the project at another field office in order to avoid further delays. The Board acknowledges the difficulties experienced in the implementation of the project, but considers that UNRWA needs to establish acceptable strategies to avoid Agency-wide effects resulting from the actions of the area staff union on the implementation of the project at other field offices.

70. **UNRWA agreed with the recommendations of the Board that it: (a) ensure that field offices expedite the recruitment process of the vacant posts within the new structure and coordinate with the education department at UNRWA headquarters on matters requiring headquarters decisions; and (b) expedite the finalization of the draft governance framework to support the implementation of the education reform strategy.**

71. **The Board recommends that UNRWA establish acceptable strategies to avoid Agency-wide effects resulting from the actions of the area staff union on the implementation of the teacher coordinators pilot project at other field offices.**

10. Health programme management

Management of essential medicines and medical supplies

72. The UNRWA policy on inventory management requires that the Agency maintain a buffer stock of approximately 25 per cent of all annual requirements for all essential medical supplies at any given time.

73. The Board found a case, however, where the central pharmacy at the Jordan field office ran out of essential drugs due to various factors such as inadequate cold rooms to store the drugs and delayed deliveries from suppliers. The deficiencies in inventory management were also reported in a concept note on management of essential medicines and medical supplies prepared by the World Health Organization (WHO), including limited storage space capacity and lack of cargo elevators for moving medical packages. WHO recommended the extension of the central pharmacy.

74. In addition, the Board noted that medical supplies were comingled with basic commodities in the warehouses of the Procurement and Logistics Division, and that expired drugs awaiting disposal in the central warehouse were kept with other drugs, contrary to 2003 WHO guidelines on good storage practices for pharmaceutical drugs.

75. The Board is concerned that mixing expired and unexpired drugs increases the risk that expired drugs may be issued to patients, while inadequate cold-room facilities limits the ability of the Agency to make bulk purchases of drugs at lower prices. In addition, mixing medical supplies with basic commodities has an adverse impact on the quality of the medical supplies. The Board considers that the timely disposal of expired items will free additional storage space for unexpired medical supplies. UNRWA attributed the shortage of essential medications to the delayed delivery from suppliers as a result of long clearance procedures on the part of host countries and the Agency's limited storage space.

76. **UNRWA agreed with the recommendations of the Board that it: (a) explore the possibility of entering into long-term agreements with local suppliers that offer competitive prices and meet the required specifications; (b) expedite the installation of new cold rooms to provide enough space for drugs that need to be stored at temperatures below 8 degrees centigrade; and (c) dispose of the expired drugs to create additional storage space and, in the intervening period, allocate temporary storage space to provide adequate drug storage facilities.**

Essential medicines and medical supplies and medical wastes

77. Paragraph 8 of the UNRWA technical instruction series No. HD/CM1/99 of 1999 on management of medical stores requires the verification and inspection of supplies received to ensure that they are fit for use and in conformity with specifications. It aims at ensuring that the quality of medicines and medical supplies are monitored and maintained from the moment they are received until they are finally used through proper storage, distribution and handling procedures. In addition, the 2008 UNRWA

health centre infrastructure guidelines require that health centres dispose of medical waste by approved methods, ideally by incineration.

78. The Board found that the Lebanon field office was unable to provide documents such as batch analysis, storage certificates and specifications of final products to confirm the adequacy of the quality control testing it performs. The Board was informed that quality control tests were not performed due to lack of guidance from headquarters. Currently the field office relies on certificates produced by the respective countries of origin, which may not credibly meet medical standards. The Board noted that the Ministry of Public Health of Lebanon conducts inspections and clearance of received essential medicines and medical supplies on behalf of the Lebanon field office. Based on the importance of assuring the quality of such drugs and supplies, the Board is of the view that the Agency needs to develop appropriate guidance for field offices as a matter of priority.

79. In addition, during the visit to four health centres and one central pharmacy at the Lebanon field office, the Board found that the centres lacked waste disposal facilities and that, as a result, they collect and dispose of medical waste on a daily basis using containers located in public areas. UNRWA attributed the lack of disposal facilities to insufficient funds. The Board considers that disposing of medical waste products using containers in public areas is against the above-mentioned UNRWA health centre infrastructure guidelines and that it may have an adverse impact on the environment in public areas.

80. **UNRWA agreed with the recommendation of the Board that it develop and implement procedures to facilitate quality control tests of essential medicines and medical supplies at the Lebanon field office.**

81. **In addition, the Board recommended that UNRWA identify appropriate means and areas for waste disposal and consider the inclusion of waste management in the annual budget as a priority in order to facilitate the establishment of disposal facilities at the health centres.**

11. Programme and project management

Project risk assessment

82. From the review of 11 project files and management inquires at the Lebanon field office, the Board found that a risk assessment had not been conducted and that there were therefore no results that could be included in the project proposals, as required in paragraph 4.2 of the UNRWA project process manual (2011). This was mainly due to the lack of a follow-up and enforcement mechanism, such as a project appraisal committee, to ensure compliance. The Board considers that a risk assessment is a vital tool in any project evaluation process as it minimizes the risk of unforeseen events requiring changes to donor funding agreements. It is also important for the success of the project and delivery of the outputs within the intended time frame and budget. UNRWA attributed the deficiency to the excessive workload of its staff in the Donor Relations and Projects Support Office.

83. **UNRWA agreed with the recommendation of the Board that it establish a mechanism, such as a project appraisal committee, to ensure that project risk assessments are conducted and included in project proposals, as required by the UNRWA project procedures manual (2011).**

12. Human resources management

Prolonged recruitment lead times

84. In its previous report (A/69/5/Add.4), the Board expressed its concern over the prolonged recruitment lead times at the Lebanon field office and recommended that UNRWA expedite the planned initiatives to reduce the length of the recruitment process.

85. The Board continues to note delays in recruitment at headquarters and at the field offices. For example, while the bench mark set in the policy is 120 recruitment days, delays beyond this bench mark ranged from 25 to 247 days at the Lebanon field office, from 36 to 260 days at the Jordan field office for eight area staff posts and from 33 to 84 days for four area staff posts and from 7 to 26 days for three international staff posts at UNRWA headquarters in Amman.

86. UNRWA stated that the recruitment period was prolonged to allow for thorough screening and testing of applicants, including the preparation of technical questions for interviews. It also explained that it continues its efforts to reduce the duration of the recruitment process, however, as internal departments shifted priorities to the ongoing crises in the Syrian Arab Republic, reducing the length of the recruitment process remained a challenge. The Board expressed its concern that a prolonged recruitment process might impact on timely delivery of services to refugees.

87. **The Board reiterates its previous audit recommendation that UNRWA expedite the planned initiatives to reduce the length of the recruitment process by improving coordination within the hiring departments.**

Deficiencies in hiring process

88. The Board found the following deficiencies in the staff hiring process:

(a) *Shortened advertisement period for international posts*: three of the five international posts reviewed by the Board were advertised for periods ranging from 5 to 10 days rather than the 30 days stipulated in paragraph 29 of the international personnel directive No. I/104.2/Rev.2 on the international staff selection policy. Although UNRWA representatives stated that the shortened advertisement periods for vacancies were due to the urgent need to fill the posts, the number of days (ranging from 94 to 180) taken from the closure of the advertisement until the selected staff joined the Agency reveals that this cannot be the case. Shortening the vacancy announcement period may limit the Agency's ability to reach the targeted organizations, professional associations and institutes where the appropriate expertise is found.

(b) *Selection of new staff from an outdated reserve list*: according to the UNRWA personnel directive on area staff selection policy there should be a preapproved roster of candidates from which individuals can be appointed or recommended for appointment without a vacancy announcement. Preapproved candidates remain on the roster for a period of one year, after which the roster is supposed to be updated.

At the Jordan field office a pre-approved candidate was appointed from the roster 271 days after its date of expiration. In addition, the Board noted a case in which the approval time for 11 posts for sanitation labourers and school attendants was granted, although there is no such provision in the existing area staff selection policy. While the Agency attributed its approval of the extension of the expired roster to the urgent need to fill the posts that line of reasoning was not documented at the time. The Board is concerned that the decision to select new staff from expired rosters might compromise the quality of the selected candidates in relation to the current labour market.

89. **UNRWA agreed with the recommendations of the Board that it: (a) comply with the international staff selection policy on international staff recruitment to allow enough time to invite more applicants; and (b) ensure proper documentation in the recruitment files in cases where the recruitment policy is waived for the purpose of meeting the Agency's minimum operational requirements.**

90. **UNRWA also agreed with the recommendation of the Board that it comply with staff selection policies and, that, where there is an exceptional case beyond the Agency's control, it document the reasons for extension to support its decision.**

13. Information and communications technology

Information and communications technology deficiencies

91. The Board found the following deficiencies in the management of information and communications technology at UNRWA:

(a) *Scope of the disaster recovery plan*: UNRWA has two categories of information and communications technology services: enterprise information and communications technology services, which are Agency-wide, including central applications, and information and communications services at the field offices, which are specifically for users at the field office and at headquarters. The Board found that the existing disaster recovery plan, developed in February 2014, does not cover the enterprise information and communications technology services hosted at the outsourced data centre at the United Nations Logistics Base in Brindisi, Italy (UNLB).

The gap in the disaster recovery plan exposes the Agency to the risk of data loss in the event that a disaster should strike the outsourced data centre. The Board was informed that the capabilities of the Global Service Centre of the Department of Field Support are evolving and that, although, historically, UNLB had been the sole data centre, capacity has now been expanded with the establishment of a second Global Service Centre at Valencia, Spain. UNRWA representatives explained that the older systems hosted at UNLB will be restructured to allow redundant back-up either from Valencia or Brindisi. The Board is concerned that the absence of recovery plan for the enterprise information and communications technology services hosted at the outsourced data centre at UNLB might hinder the Agency from recovering all critical processes in the case of any major interruption.

(b) *Implementation of the enterprise resource planning system*: The implementation of the new enterprise resource planning system, which effectively started in 2012 and which is intended to cover the areas of finance, human resources and procurement, is expected to be operational by 19 April 2015. The Board found, however, that the back-up policy and procedures for providing user access to the new system have not been reviewed to reflect the new operations. In addition, the hosting of the new system and its corresponding middleware application, Citrix, has been outsourced to third party, but the contract with the vendor has not yet been signed. The Board also noted a deficiency in the Agency's ability to resolve and manage any possible difficulties that may arise for users once the new system is operational owing to the incomplete customization of the service desk express and the corresponding training for users. These weaknesses will hinder the smooth implementation of the system.

The Agency does not know when the outsourced service contract will be signed or when the procedures for the provision of user access to the new system will be ready. The Board is of the view that inadequate review of the system-related operational procedures, lack of a project closure plan to facilitate the handover of the outsourced operations to a third party and insufficient capacity to systematically handle incidents that might arise during deployment of the new system will compromise the Agency's ability to effectively support the new operations.

92. **UNRWA agreed with the recommendations of the Board that it update the disaster recovery plan in order to: (a) accommodate the critical systems of the outsourced data centre; and (b) expedite signing of the contract with the vendor hosting the new enterprise resource planning system and Citrix.**

93. **UNRWA also agreed with the recommendations of the Board that it: (a) review the back-up policy and procedures for user access to reflect the new requirements of the enterprise resource planning system; (b) expedite the customization of the service desk express application to accommodate the handling of incidents arising from the implementation of the new system and train service desk staff accordingly before the system becomes fully operational; and (c) develop project closure plans for the system to ensure its smooth transition from the project to the operational stage.**

Lack of policy and guidelines for mobile computing security

94. Mobile computing involves the use of handheld computing devices with operating systems that can run various types of application software. Most handheld devices are equipped with Wi-Fi, Bluetooth and Global Positioning System capabilities that allow connection to the Internet and other Bluetooth-capable devices, for example an automobile or a microphone headset. An information security policy requires that the Agency ensure the integrity of its networks and that privately owned devices not be connected to Agency networks without appropriate security systems and controls in place. The Agency currently has 60 handheld devices with access to enterprise applications such as e-mail, and smartphones, which allow connection to the wireless network for Internet usage.

95. However, the Agency has no security policies or guidelines to address the unique security challenges presented by the use of mobile device. For examples, mobile devices are typically used in various locations outsides the organization's control, such as in employees' homes, in hotels and at conferences. Many mobile devices, particularly those that are owned by individuals, are not necessarily trustworthy, which means that the built-in security is ineffective. Mobile devices primarily use non-organizational networks for Internet access. Organizations normally have no control over the security of the external networks that these devices use and mobile devices may interact with other systems with regard to data synchronization and storage. The Board considers that the Agency needs to develop

and implement specific mobile device security guidelines in order to adequately address these unique security challenges.

96. **UNRWA agreed with the recommendations of the Board that it: (a) review the information security policy to cover the security posed by mobile devices; and (b) develop mobile device security guidelines and create awareness among users.**

14. Department of Internal Oversight Services

Overall performance of the Department of Internal Oversight Services for the year ended 2014

97. Over a period of three years (from January 2012 to December 2014) the Department of Internal Oversight Services DIOS issued a total of 348 audit recommendations, of which 209 (60 per cent) were fully implemented while 139 were under implementation as at 31 December 2014 (see table II.3).

Table II.3
Status of implementation of recommendations issued by the Department of Internal Oversight Services

	Year of issue				
Status as at 31 December 2014	*2012*	*2013*	*2014*	*Total*	*Percentage*
Under implementation	2	88	49	139	40
Fully implemented	141	68	0	209	60
Total	**143**	**156**	**49**	**348**	**100**

Source: DIOS report 2014.

98. In its review of the activities of the Department, the Board noted the following:

Automation of the follow-up system for internal audit recommendations in the results-based management action tracking system

99. Paragraph 12 (d) of organizational directive No. 14 of 2012 requires the Department of Internal Oversight Services to manage the follow-up system for internal audit recommendations aimed at improving the internal control system. The Department of Internal Oversight Services uses a centralized access database system to track and monitor the implementation status of the approximately 925 recommendations issued since 2011. The Board reviewed the system and noted that the updates of implementation status involved the manual compilation of responses provided through the use of Excel spreadsheets or Microsoft Word, which is a time consuming and inefficient way of ensuring that updates are performed regularly. Such manual work delays the tracking and evaluation of the status of audit recommendations.

100. The Board was informed that the process of automating the current follow-up system into the results-based management action tracking system is in progress. Currently, the Department is transferring the data from the access database to the

action tracking system. The Department stressed that a pilot test of the audit-recommendation action tracking system is planned at the Jordan field office, to be followed by training on the tracking system for staff of the Department and for client-users.

101. However, as at the time of the audit in April 2015, the migration of the data on the implementation of the internal audit recommendations to the results-based management action tracking system was still in progress. The delay in completing the transfer of data was attributed to lengthy discussion between the Planning Department and the Department of Internal Oversight Services on the best way to proceed. Continued delays in completing the transfer of data and the automation of data recording to the action tracking system has a negative impact on the efficient and accurate management of this project.

102. **UNRWA agreed with the recommendations of the Board that it: (a) expedite the automation of the follow-up system for internal audit recommendations to the results-based management action tracking system to ensure the efficient and effective tracking of the recommendations of the Department of Internal Oversight Services; and (b) ensure that the experience gained from the pilot test of the action tracking system at the Jordan field office is well documented for future use during the expansion to other fields in order to make it cost-effective.**

Review of reporting structure of the Investigations Division

103. Paragraph 16 (d) of organizational directive No. 14 of 2012 requires the Investigations Division to provide technical advice, guidance and training to staff who may be required to carry out investigations supervised by field offices and departmental directors. In addition, paragraph 16 (e) requires the Division to administer a process of quality assurance by initiating the review of investigations conducted by headquarters departments and field offices.

104. The Board reviewed the investigation reporting structure and noted that the Department of Internal Oversight Services conducts some investigation activities while others are conducted by staff at the field offices and by headquarters departments under the authority of the respective directors. In its review of investigation reports issued by the field offices, the Board noted that the reports had not been reviewed by professional investigators for quality assurance owing to the absence of a policy on reporting investigation activities conducted by field offices and headquarters departments. The Board was informed that the Agency is aware of the existing gap and has taken the initiative of establishing an intake committee[2] at the field offices, as recommended by the UNRWA Advisory Committee on Internal Oversight at its meeting on 24 and 25 November 2013, as a way of strengthening the investigation review process.

105. In 2014, the Agency recruited two professional investigators to provide additional support and technical advice, guidance and training to field staff who carry out investigations supervised by directors at the field offices. The extent of the direct involvement of the investigators in supervising the work of such field staff is a matter that depends on the nature of each case, a matter that is discussed and

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[2] The intake committee is responsible for screening allegations of misconduct and determining whether an allegation should be investigated.

agreed upon between the Division of Internal Oversight Services and the directors of the field offices. The Division also informed the Board that not all field offices have established intake committees to review allegations of misconduct and to determine whether investigation is warranted as advised by the Advisory Committee.

106. While the Board acknowledges the efforts undertaken by the Agency, it is of the view that it needs to undertake a close follow-up to ensure that intake committees are established Agency-wide for quality assurance.

107. **The Board recommends that UNRWA: (a) ensure that intake committees are established at all field offices to review allegations of misconduct for quality assurance; and (b) consider developing a policy that will guide the reporting of investigation activities conducted by staff at the field offices and by headquarters departments.**

108. **UNRWA agreed with the recommendation of the Board that it ensure that all field offices establish intake committees and that it consider developing a policy to guide the reporting of investigation activities at the field offices and by headquarters departments.**

15. Microfinance Department

109. The Microfinance Department is a small programme within UNRWA that provides credit facilities to micro-entrepreneurs. Activities and balances of the Department for 2014 have been included in the UNRWA financial statements of 2014. The Department prepares its own set of financial statements under the Internal Financial Reporting Standards, which are audited separately by the Board.

110. In 2014, the Department recorded a loss of $0.484 million compared with a surplus of $0.475 million in 2013. The recorded loss is attributable to: exchange fluctuations for loans issued in different currencies; a decrease in grant funds for operations and training income; and the provision for a loan reserve of $1.05 million (2013: $1.02). The Board audited the 2014 annual financial statements and issued an unqualified opinion.

Management of loans receivable

111. The Board reviewed loans receivable and noted that loans amounting to $34.376 million were issued in 2014 (2013: $30.54 million) while $30.737 million (2013: $31.05 million) was received as repayment on outstanding loans, including interest. Provisions on outstanding loans as at 31 December 2014 was $1.05 million (2013: $1.34 million) while the amount of loans written off was $0.86 million (2013: $2.05 million). The closing loan balance as at 31 December 2014 was $21.37 million (2013: $18.77 million).

112. In its previous audit report (A/69/5/Add.4, chap. II, para. 183) the Board raised its concern over deficiencies in implementing the recommendations of the internal auditors on weaknesses in the process of granting loans that might increase recoverability risk. The Board reviewed the internal audit report and noted similar weaknesses, including inaccuracy and inconsistency in filling out application forms by loan officers, non-compliance with operating manuals and non-adherence to procedures related to cashier functions, as well as inadequate follow-up of late and delinquent clients by branch officials. Furthermore, the Board noted that project

supervision and monitoring activities were not conducted by branch officials, resulting in non-adherence to terms and conditions during the disbursement of loans.

113. **The Board reiterates its recommendations that the Microfinance Department: (a) improve controls by establishing an online loan application process in the new Omni enterprise system in 2015; and (b) closely supervise cashiers' activities, offer training and instruct cashiers to strictly follow operational procedures, including updating the cheque register, which is to be verified quarterly by branch managers; and (c) adopt proper follow-up procedures for all borrowers, focusing on those with late payments, while adhering to the agreed terms and conditions during loan disbursement.**

C. Disclosures by management

114. UNRWA made the following disclosures relating to write-offs, ex gratia payments and cases of fraud and presumptive fraud, which in the view of the Board are not significant.

1. Write-off of losses of cash, receivables and property

115. UNRWA informed the Board that, in accordance with financial regulation 11.5, the following losses and write-offs had been recognized: cash losses of $5,244; inventory losses of $0.46 million, identified through physical inventory verifications; outstanding receivables of $0.15 million; property losses of $1.35 million; and outstanding loans of $0.86 million (see annex II).

2. Ex gratia payments

116. As required by financial regulation 11.5, UNRWA reported ex gratia payments for 2014 amounting to $0.02 million in connection with two staff members who were transferred from the Gaza field office to headquarters in Amman.

3. Cases of fraud and presumptive fraud

117. In accordance with the International Standards on Auditing, the Board plans its audits of financial statements so that it has a reasonable expectation of identifying material misstatements and irregularities (including those resulting from fraud). The Board's audit should not, however, be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

118. During the audit, the Board made enquiries of management regarding its responsibility for oversight in the assessment of risks of material fraud and the processes in place for identifying and responding to risks of fraud, including any specific risks that management has identified or which have been brought to its attention. The Board also enquired as to whether management had knowledge of any actual, suspected or alleged fraud, including enquiries to the Office of Internal Oversight. The additional terms of reference governing the external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in the Board's report.

119. In 2014 the Board did not identify any cases of fraud, other than those cases of fraud and presumptive fraud that have been reported to the Board and adequately disclosed in the notes to the financial statements.

120. In accordance with article VII of the Financial Regulations and Rules of the United Nations and the related annex, UNRWA reported 25 cases of fraud and presumptive fraud in 2014, of which 11 cases, amounting to $123,004, were completed and finalized during the year. An additional 14 cases are still under investigation, and UNRWA will report on these cases next year. A summary of the cases is contained in annex III to chapter II of the present report.

D. Acknowledgement

121. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Commissioner-General and the members of his staff, as well as the staff at the Amman headquarters, the Gaza headquarters, the Jordan field office, the Gaza field office, the Lebanon field office and the field office in the Syrian Arab Republic.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor-General of the United Republic of Tanzania
Chair of the United Nations Board of Auditors
(Lead Auditor)

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor-General of India

Annex I

Analysis of the status of implementation of recommendations for the year ended 31 December 2014

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
1.	2011 final audit (A/67/5/Add.3, chap. II)	82	The Board recommended that UNRWA allow for adequate tender submission time frames in accordance with the procurement manual; provide clarity on what constitutes "due cause"; and instruct field offices to institute adequate procurement planning.	Tenders comply with the guidance in the revised procurement manual on submission time frames, except in rare cases, and on mandates for the basis of variations to be adequately documented. Revisions to the "due cause" clause for reduced tender durations were considered and it was determined that the documentation required to support the decision of the chief of the Procurement and Logistics Division for audit purposes would be strengthened. Procurement planning is conducted in accordance with the provisions contained in the updated procurement manual. The Department is undertaking further review to ensure the documentation of justifiable reasons for shortened tender periods, where required.	UNRWA is in the process of strengthening its control process over inventory lead times through the new enterprise resource planning system in order to avoid the need for making urgent procurements which result in shortening tender periods. The Agency is also in the process of reviewing the procurement manual and has provided guidance on clear documentation of justifiable reasons for shortening tender periods.		X			
2.	2011 final audit	118	The Board recommended that UNRWA enhance its supply manual to address the inconsistent procedures applied by its field offices in issuing inventories and that it address the gaps identified in the process of issuing inventories.	UNRWA is transitioning to a new enterprise resource planning system in 2015, which will address the inconsistent application of supply procedures by different fields as the system will support all inventory management transactions.	The Board will verify the implementation of the recommendation after the introduction of the new enterprise resource planning system in which supply procedures will be harmonized for all fields.		X			

						Status after verification				
No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
3.	2011 final audit	158	The Board recommended that UNRWA clearly define the responsibility for plan testing and process backlog initiation in its disaster recovery plan; finalize and approve the plan; and develop and approve a business continuity plan.	Deployment of new backup technology and disaster recovery plan for the headquarters' enterprise data centre is currently in progress. Deployment at the field office in the Syrian Arab Republic was delayed due to the current situation. The disaster recovery plan has been drafted and will be tested before finalization and approval.	The Board considered that the recommendation had been overtaken by events as the back-up procedures and disaster recovery plan was based on the legacy system, which was decommissioned on 19 April 2015 after the operationalization of the new enterprise resource planning system.				X	
4.	2012 final audit (A/68/5/Add.3, chap. II)	62	The Board recommended that UNRWA develop a clear mechanism for monitoring supplier performance during the contract period. This would ensure compliance with regulations and would give management assurance that poor supplier performance was being addressed.	The status of "under implementation" will be in place until such time as the process is rolled out with the new enterprise resource management system in 2015.	Verification is subject to the effective implementation of the new enterprise resource planning system, which accommodates monitoring processes for all contracts, i.e. goods, services and construction contracts.		X			
5.	2012 final audit	88	The Board recommended that UNRWA expedite the process of developing the inventory policy in order to enhance IPSAS compliance; and assess the closing value for non-inventory items to ensure compliance with IPSAS Standard 12.	UNRWA is in the process of developing relevant policies and procedures related to inventory and non-inventory goods in alignment with the enterprise resource planning system that will be introduced during 2015. These procedures will be in accordance with IPSAS standards and take into account the Board's recommendations.	The Board will verify the implementation of the recommendation after the introduction of the enterprise resource planning system, but in the interim it has developed a new policy, which categorizes non-inventory to inventory goods in accordance with IPSAS 12. (Reiterated in 2013).					X

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
6.	2012 final audit	101	The Board recommended that UNRWA: (a) set a time frame for establishing an information and communications steering committee to oversee the implementation and operation of ICT-related functions; (b) develop a business case for deploying an electronic document management system that would act as a key central repository accessible anywhere and at any time; and (c) set a time frame for and expedite the merging of the RAMCO application support unit under the Finance Department with the application support unit under the Information Systems Division.	(a) UNRWA established an ICT steering committee effective July 2013. Governance packages covering each aspect of the ICT steering committee framework are in process; (b) document retention, archive and disposal policy is currently being updated. Once completed, it will allow for the development of a detailed requirements document that will define future system requirements and allow UNRWA to more precisely specify the requirements for creating an electronic document management system for the digitization of paper records currently held at the central records unit; and (c) the transition to an SAP platform requires an overall restructuring of the current information technology division and a merger with what will remain of the enterprise resource planning project team once that project closes at the end of 2015. By implication, the RAMCO team will be dis-established in its entirety and be replaced by a support unit in the new information technology division.	The ICT steering committee needs to adjust the information technology operation model to accommodate the SAP platform, which was introduced on 19 April 2015.		X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
7.	2013 final audit (A/69/5/Add.4, chap. II)	159	The Board recommended that UNRWA: (a) enforce compliance with technical instruction No. 7 by regularly updating the disaster recovery plan to incorporate any changes in the ICT environment; and (b) expedite the update of the backup procedures instruction and update the disaster recovery plan to reflect changes in the ICT infrastructure.	It is requested that this recommendation be closed: (a) completed the update of backup policy under technical instructions No.6 in September 2014; (b) completed the update of the headquarters disaster recovery plan in August 2014 and tested it in September 2014.	The Board considered that the recommendation had been overtaken by events as the backup procedures and the disaster recovery plan was based on the legacy system (RAMCO), which was decommissioned on 19 April 2015 after the introduction of the enterprise resource planning system.				X	
8.	2013 final audit	164	The Board recommended that UNRWA: (a) develop appropriate procedures for erasing information contained in ICT equipment, taking into consideration the sensitivity of the information being handed over to the disposal authorities; and (b) develop security guidelines based on good practice for protecting critical information in mobile devices.	Implementation is ongoing. Current procedures and technical solutions are being assessed in order to issue updated policy and technical instructions. Implementation is now planned for the second quarter of 2015 due to other priorities.	The Board will verify the implementation of the recommendation during interim audit of 2015 as UNRWA expects to implement it in the second quarter of 2015.		X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
9.	2013 final audit	53	The Board recommended that UNRWA: (a) expedite the implementation of a new software system for management of vehicles' workshop operations and record-keeping; and (b) enforce the available operational controls of the vehicles' workshop including proper record-keeping and the completion of job card forms.	The software was deployed for testing at the Jordan field office in the third quarter of 2014. The project hit a significant technical problem related to the import of vehicle mileage and fuel data from the Fleet log system. This was eventually traced to a difference in time/date format between the two systems. One used a system from the United States of America and the other used the international standard (i.e. MM/DD/YYYY versus DD/MM/YYYY). This is now resolved and testing is ongoing. Rollout of the system to the remaining field offices will take place in 2015.	The system has been introduced as a pilot at the Jordan field office; and testing is in progress.		X			
10.	2013 final audit	58	The Board recommended that UNRWA expedite the evaluation process and adjust the opening and closing inventory balances accordingly to comply with IPSAS 12.	UNRWA is in the process of developing relevant policies and procedures relating to inventory and non-inventory goods in alignment with the enterprise resource planning system that will be introduced during 2015. These procedures will be in accordance with IPSAS standards and take into account the recommendations of the Board.	Subject to the effective implementation of the new enterprise resource planning system; in the interim, UNRWA has developed a new policy, which has categorized the account codes of non-inventory to inventory in order to align with IPSAS 12. UNRWA expects to complete the process in third quarter of 2015.		X			

No	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
11.	2013 final audit	63	The Board recommended that UNRWA: (a) include items procured under project funds during the preparation of procurement plans to benefit from economies of scale; and (b) involve the Chief of Procurement and Logistics Department and Field Procurement and Logistic Officers in the project level procurement planning at the headquarters and field levels to obtain input for the preparation of each procurement plan.	(a) This is agreed to the extent that items are compatible, that the timing of the need is also compatible and that project funds are available; and (b) this is agreed but with the caveat that project planning does not always (and frequently does not) align with the time frames for the preparation of annual procurement plans. The recommendations are logical and UNRWA always endeavours to take project needs into account in its normal planning cycles. An UNRWA concern with this recommendation is that there is no easily defined response to give that would allow us to suggest that the recommendations have been "implemented". To that extent, while UNRWA agrees with the recommendations and will continue to keep them in mind, it is suggested that this item be considered closed.	From our current review we noted that the items procured under project fund are still not included in the procurement plan, therefore the recommendation cannot be closed. Since the plan is a living document, any change in the operation can be updated on the plan.		X			
12.	2013 final audit	66	The Board recommended that UNRWA: (a) develop and implement a standard methodology and template for procurement planning to bring consistency to its headquarters departments, field offices and project undertakings; and	(a) The provisions of the procurement manual have been updated. Version 3 of the manual is under final review by the Legal Department. We anticipate that this will be finally approved before the end of the second quarter of 2015. Part of this update will include provision of guidance notes and a planning template for procurement planning. This is in preparation and drafts have been circulated to the field offices for comment.	Still in progress because version 3 of the procurement manual, which addresses the recommendation, is at final review at the Legal Department. UNRWA expects to adopt the manual at the end of the second quarter of 2015.		X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
			(b) ensure procurement plans are thoroughly reviewed and agreed by the concerned departments, project managers and the Procurement and Logistics Division to ensure adequacy of their contents before implementation.	We anticipate adoption of the template and notes by the end of the second quarter of 2015. (b) Implementation of procurement planning process will occur in readiness for the 2016 financial year.						
13.	2013 final audit	71	The Board recommended that UNRWA: (a) enforce compliance with the procurement manual and minimize ex post facto approval and, where it is inevitable, clearly document the factors which necessitated the ex post facto approval; (b) conduct detailed survey and designs for construction works and ensure thorough review of survey reports to avoid unnecessary variations; and (c) improve the process of reviewing contents in each bill of quantities and ensure that all necessary items for particular construction project are included before being approved.	Agreed, while noting that ex post facto submissions are a very rare occurrence. Those that do occur are typically the result of procurement conducted using urgency or emergency powers as per the UNRWA procurement manual. Even under these provisions, ex post facto submission of the cases is always required and a mandatory part of this report is an explanation of the circumstances that lead to the need to use the powers vested in either the director of the field office or the Chief of the Procurement and Logistics Division. The rare submissions where ex post facto cases were not conducted on an emergency or urgency basis are evaluated on a case by case basis. While UNRWA agrees with the recommendations and will continue to keep them in mind, it is suggested that this item be considered closed as it is not clear what remedial action could be taken to allow the observation to be closed more formally.	The Board will verify the implementation of the recommendation after submission of ex post facto cases for two years (2013 and 2014) with reasons and approval to enable a review of the trend.		X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
14.	2013 final audit	75	The Board recommended that UNRWA: (a) improve coordination between the procurement department and users at the field offices to ensure that all procurement requirements are identified and communicated to Procurement and Logistics Division at headquarters on a timely basis, to avoid unnecessary shortening of tender periods; (b) perform regular review of lead times and inventory balances to avoid emergency orders; and (c) review the grounds for waivers to ensure they are consistent with current good practices.	Automation of these processes in the new enterprise resource planning system will assist in minimizing these issues. In particular, with a logistics system that is largely paper based and hence inevitably subject to delays in subsequent data entry, the change to an automated system will significantly enhance our ability to plan requirements in detail based on live data.	The Board will verify the implementation after the implementation of the enterprise resource planning system, which will enhance effective communication with the field on the inventory balance and lead time management.		X			
15.	2013 final audit	81	The Board recommended that UNRWA: (a) establish a formal evaluation committee to enhance transparency, objectivity, and equity in the bid evaluation process; (b) develop a standardized template	The relevant provisions of the procurement manual have been updated. Version 3 of the manual is under final review by the Legal Department. It is anticipated that this will be finally approved before the end of the second quarter of 2015. Implementation of the more formal evaluation process has started at all field offices in advance of formal policy.	Assessment of implementation will be done after adoption of version 3 of the procurement manual. However, the final review of the manual is under the control of the Legal Department.		X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
			for declarations of interest by evaluation committee members; and (c) design and document formal appointment letters for evaluation committee members.							
16.	2013 interim audit	23	Inadequate control over assets below capitalization threshold: the Board recommends that UNRWA: (a) review the current inspection coverage of 5 per cent of items below the capitalization threshold with the aim of checking a far higher percentage of equipment for control purposes; and (b) improve control over furniture and fittings that are below the threshold by involving users at different levels in the identification of assets under their control and establish inventory sheets in the respective offices.	In respect of (a), agreed. The barcode system for asset management has been introduced at all field offices. The offices are now verifying that asset database entries are up to date and all assets are barcoded. Once this is complete, we will be in a position to review current practices and update as necessary. In respect of (b), not agreed. Non-capital assets that are not considered attractive items are expensed upon receipt and managed by the facilities managers to which the items are assigned. This practice is in line with United Nations policies and requires no amendment.	The barcode system for asset management has now been introduced at all field offices, the assessment of the percentage increase of the inspected assets will be done during the interim audit of 2015.		X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
17.	2013 interim audit	35	Absence of Carlog system at the Lebanon field office: the Board recommends that UNRWA consider introducing the Carlog system at the Lebanon field office for the efficient and effective monitoring and security of vehicles.	While the Lebanon field office concurs with the audit recommendation that introduction of the Carlog system would greatly improve the efficiency and effectiveness of monitoring and security of vehicles, it has not been possible to import, deliver and install the Carlog software/hardware in Lebanon since the only authorized agent is located in Israel. Market research needs to be conducted for alternative locally available hardware and software for review by the chief of the Procurement and Logistics Division. Due to the security situation, the system should include real-time satellite tracking over the Internet. Additionally, funds to support the purchase and installation of the required hardware and software will need to be identified (approximately $80,000 for hardware/software and $22,000 annually for satellite tracking).	The Agency is looking for funds to implement the Carlog system in Lebanon. There is ongoing discussion between Director of Administrative Support and the Director of Finance on how they can fund this system.		X			
18.	2013 interim audit	39	Regarding assets without physical identification numbers, the Board recommends that UNRWA assign unique identification numbers to each property item and introduce a barcode system that will link physical assets with the corresponding information in the asset register.	The barcode system for asset management is operational at all field offices. We are now verifying that the asset database entries are up to date and all assets are barcoded. Once this is complete we will be in a position to review current practices and update as necessary.	The barcode system for asset management is now operational at all field offices; the assessment of the completeness of the captured assets will be done during the interim audit of 2015.		X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
19.	2013 interim audit	45	Inadequate review of construction contracts: the Board recommends that UNRWA: (a) improve the review process for contracts before award to minimize errors and avoid inconsistencies among the related contract documents; (b) review the construction contract template to ensure that all key elements are incorporated to avoid misunderstanding between the contracting parties; and (c) arrange with the vendor to change the wrong disclosed amount in the contract and to harmonize information contained in the contract documents.	In respect of (a), agreed; (b) agreed; and (c) agreed. Comment — while agreeing as a logical step this should be referred to the appropriate field office for action (understood to be the joint field office).	The Board has assessed that part "c" has been implemented while parts "a" and "b" are still in progress because the review of version 3 of the manual go hand in hand with the contract documents.		X			
20.	2013 interim audit	51	Purchase orders not signed: the Board recommends that UNRWA: (a) establish a mechanism to ensure that purchase orders are signed by vendors and returned to the Agency for reference before rendering the agreed service; and	(a) Agreed. The chief of the Procurement and Logistics Division will write to all procurement staff re-iterating the need to conclude the purchase order cycle by ensuring signed copies are included in the case files; (b) not agreed. UNRWA requests the opportunity to discuss this matter further and to evaluate the detail of the research that gave rise to this recommendation. Purchase	The Director of Administrative Support and the Chief of the Procurement and Logistic Department have issued a circular to the field offices as a way of reminding them of the need to have a signed purchase order from the supplier to make the contract binding. Liquidated damage is not included		X			

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			(b) ensure that general and special conditions are clearly defined and attached to each purchase order, consider including a liquidated damages clause in contracts, whenever practicable, and make use of performance bonds in case of failure or late delivery.	orders are commonly issued under the umbrella of a long-term agreement or framework agreement. This constitutes the main contract and defines the general and special conditions and the damages clauses applicable. Where one-off purchases made against a single tender exercise are concerned the purchase order is generally issued with the relevant documentation. It would be helpful to review the cases • considered by the Board to offer a more precise answer. In respect of performance bonds, it is requested that the Board delete this reference. Performance bonds are sought and occasionally used by UNRWA but this is always on the basis of service or construction contracts which have more of a project deliverable basis. For purchase orders UNRWA makes use of standard damages clauses not performance bonds.	in all contracts except for basic commodities contracts.					
21.	2013 interim audit	56	We recommend that UNRWA: (a) review the procurement manual to shorten the timing of the report of the Director of Administrative Support to the Commissioner-General on procurement activities with a view to improving the relevance of the information contained in the	It is requested that the Board withdraw the recommendation. (a) As explained to the Board, the preparation of the annual report is challenging, given the current IT tools available, requiring a manual data cleansing exercise before the underlying data can be analysed. This will be improved once the enterprise resource planning system is fully operational and we should be in a position to report more promptly on 2015 data. However, UNRWA does not consider that this is an urgent issue. In each of the last 5 years	The Board assessed that part "b" has been implemented and therefore closed, while part "a" is subject to the release of version 3 of the procurement manual and the effective implementation of the enterprise resource planning system in April 2015.		X			

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			report for management decision-making; and (b) ensure that the annual procurement report to the Commissioner-General for the year ended 31 December 2012 is prepared as required by the procurement manual.	the annual report has been presented well before the end of the first quarter of the subsequent year; (b) the annual statistical report was presented to the Commissioner-General and the Management Committee on 5 March 2013 in line with normal reporting practices.						
22.	2013 interim audit	59	Unclear separation of levels of approval for the Director of Administrative Support and the Advisory Committee on Procurement: the Board recommends that UNRWA (a) review the procurement manual and clearly indicate the roles and responsibilities of the Advisory Committee on Procurement and the Director of Administrative Support; and (b) ensure that the Advisory Committee reviews all procurement within its review threshold before being cleared by the Director of Administrative Support in order to enhance transparency in the procurement process.	(a) Agreed: Revisions to the procurement manual will be released in the second quarter of 2015, which will address this observation; (b) not agreed: UNRWA went to great lengths to review its procurement policies in 2008 and adopted what became known as the "Procurement Policy Framework". This introduced a number of sweeping changes that included the replacement of the traditional local and headquarters contract committee methodology that had proved ineffective and cumbersome with a new methodology that emphasized speed and personal rather than committee accountability. To date, the new mechanism has proved a great success. To agree a recommendation to refer all contract cases to the ACP would effectively recreate the old mechanism.	The Board will assess the implementation of the recommendation after adoption of version 3 of procurement manual. However, final review of the manual is under the control of the Legal Department. The Board is still of the view that bypassing the Advisory Committee on Procurement within its threshold is non-compliance with the procurement manual (2012), which indicates the threshold for approval.		X			

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23.	2013 interim audit	86	Inadequate documentation of procurement files: the Board recommends that UNRWA ensure that, in future, the Jordan Field Office: (a) mobilizes all construction contract documents from tendering to payment in order to facilitate proper filing with the Procurement and Logistics Division while waiting for the new tracking system; and (b) expedite implementation of the tracking system to facilitate proper filing and assist management in the control and monitoring of construction contracts.	(a) For the purpose of mobilizing construction contract documents, this needs to be explored further between different departments (procurement, engineering and finance) to ensure the harmonization between them for proper implementation; (b) as for the implementation of the tracking system, it will be implemented during the second quarter of 2014.	The recommendation has been implemented; the Jordan field office has established an internal system that records all key information on service and construction contracts for easy monitoring and evaluation of contracts.	X				
24.	2011 final audit	178	The Board recommended that UNRWA prioritize the implementation of internal audit recommendations, with emphasis on high risk areas identified by internal audit.	A standard operating procedure for audit recommendation follow-up has been drafted.	Implementation of the recommendation is still in progress as the standard operating procedures have not yet finalized.		X			

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25.	2013 final audit	36	The Board recommended that UNRWA develop a policy on fraud and other corrupt practices to guide management and other staff members in identifying and reporting fraud-related matters.	UNRWA accepts the recommendation and work is ongoing to produce an anti-corruption strategy to address the recommendation. The work is in response to a recommendation from the Advisory Committee on Internal Oversight to carry out a comprehensive assessment of the risks of fraud and corruption. Please note that the obligation of all staff members to report fraud, corruption and other forms of wrongdoing is laid out in general staff circular No. 5/2007. In addition, awareness on fraud, corruption and related reporting mechanisms is included in the Agency's ethics e-learning course that is mandatory for all staff, Agency-wide.	Implementation of the recommendation is still in progress; the Agency is still in the process of preparing the anti-corruption strategy.		X			
26.	2013 final audit	40	The Board recommended that UNRWA undertake a mapping exercise to identify and document in a single document key internal controls for its business processes with reference to other documents providing detailed procedures.	UNRWA accepts the recommendation and will develop a document explaining roles and responsibilities for internal control relating to critical business processes.	Development of the document is still in progress; the Board will review the progress during the interim audit of 2015.		X			

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27	2013 final audit	43	The Board recommended that UNRWA: (a) develop and distribute to employees a risk management policy outlining the underlying approach to risk management and mitigating procedures; and (b) ensure that all high risks that are common to UNRWA are assessed and captured in the risk registers at the field offices, thus enabling the development of common procedures for responding to those risks.	UNRWA accepts the recommendation and will develop a document explaining roles and responsibilities for internal control relating to critical business processes.	Implementation of the recommendation is still in progress. UNRWA is in the process of harmonizing the roles and responsibilities to align with the new enterprise resource planning system.		X			
28.	2013 final audit	170	The Board recommended that UNRWA: (a) through its field and departmental directors, ensure that investigation cases are accurately recorded in the case management system and on a timely basis; and (b) recruit additional professional investigators who would report directly to the Investigations	UNRWA will put in place a mechanism to ensure that the case management system is completed on a timely basis and he data is complete and accurate. With respect to additional professional investigators, the Department of Internal Oversight Services initiated and completed the recruitment of two P-3 professional investigators in 2014 to strengthen support it can provide to field-led investigations. In accordance with the Department's organizational directive, these staff [investigators] will provide	Implementation of the recommendation is in progress because in 2014 the Agency succeeded in obtaining two P-3 professional investigators at two field offices.		X			

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			Division of the Department of Internal Oversight Services and supervise staff involved in investigations at the field offices.	technical advice, guidance and training to [field] staff that carry out these investigations, supervised by field directors. The extent to which these staff [investigators] would be directly involved in supervising the field staff carrying out investigations is a matter that would depend on the nature of the case, and would be discussed and agreed between the Department and the field directors, as and when the need arose. The need for additional investigators will be assessed on a regular basis through the Department's annual workplan.						
29.	2013 final audit	174	The Board recommended that UNRWA: (a) expedite the finalization of evaluation framework to guide and support the evaluation functions within the Agency; and (b) review the current practice of ad hoc handling evaluation activities at headquarters departments and field offices to improve the evaluation function.	(a) The evaluation architecture was finalized and presented to the Advisory Committee on Internal Oversight in November 2014. The Committee recommended a slight revision to the architecture and indicated that it should be circulated to UNRWA stakeholders. The Evaluation Division is working on the second revision of the architecture and plans to circulate it internally and then present it at the next meeting of the Advisory Committee in March 2015. (b) The Evaluation Division has engaged a consultant to help it to develop standard operating procedures for evaluation activities of headquarters departments and field offices. This work is planned for completion in June 2015.	Implementation of the recommendation is still in progress, the draft evaluation architecture is ready, and currently management is incorporating the recommendations of the Advisory Committee. It is expected to be finalized by the fourth quarter of 2015.		X			

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						Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*	*Reiterated*
30.	2013 final audit	180	The Board recommended that UNRWA enhance the internal control system by expediting implementation of the high-risk internal audit recommendations.	As part of its semi-annual audit recommendation follow-up process, the Department of Internal Oversight Services will continue to focus management's attention on addressing the remaining high-risk recommendations.	Implementation of the recommendation is in progress; the Board assessment shows that the implementation rate is running at a slow pace.		X			
31.	2012 final audit	82	The Board recommended that UNRWA endeavour to the best of its ability to obtain relevant documents to substantiate the right to use buildings and plots of land.	UNRWA is in the process of obtaining the relevant documentation.	Implementation of the recommendation is in progress; the management liaises with government to get the relevant documents.		X			
32.	2013 final audit	130	The Board recommended that UNRWA actively follow up with the Executive Office of the Secretary-General and the power service provider to find a lasting solution on the settlement of the electricity bills so as to avoid the risk of power disconnection in refugee camps.	The recommendation relates the general position of Palestine refugees in Lebanon. UNRWA is not responsible for settling any individual debts of Palestine refugees, including settling fees for power consumption, whether inside or outside the camps. There is no time limit for settlement implementation; this being an issue which will be settled rather politically, not legally, and UNRWA is coordinating with appropriate authorities in that regard.	The Board acknowledges management initiatives and follow up with regard to that issue, however, the recommendation cannot be closed as the matter is still in progress and the unsettled electricity bills continue to appear in the UNRWA financial statements as a contingent liability.		X			

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33.	2012 final audit	96	The Board recommended that UNRWA formalize its results-based management results review processes in a policy or organizational directive; (b) ensure that the results review process takes place as envisaged, at mid-year and on an annual basis; and (c) ensure that measures are implemented to support alternative means of collecting performance data from the Syrian Arab Republic field office, for example, through the Internet.	An organizational directive incorporating results-based management results review processes is being developed. Parts (b) and (c) of the recommendation have been implemented.	The Board assessed that part "b", has been implemented; part "c" is subject to a review report from the field office in the Syrian Arab Republic.		X			
34.	2013 final audit	85	The Board recommended that UNRWA indicate the required financial resources for each strategic objective in the headquarters and field implementation plans for effective results evaluation.	The recommendation will be noted as the Agency develops a planning framework to best complement the Agency's new medium-term strategy (2016-2021).	Assessment of implementation of the recommendation awaits formulation of the medium-term strategy 2016-2021, which is expected to be implemented in the first quarter of 2016.		X			

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35.	2013 final audit	89	The Board recommended that UNRWA include the goal on internal governance and support in the upcoming medium-term strategy for 2016-2021 for consistency with the implementation plans for headquarters and the field and the biennium budget.	The new medium-term strategy for 2016-2021 will have a revised results framework that will include a management effectiveness component.	Assessment of implementation of the recommendation awaits the formulation of the medium-term strategy, which is expected to be implemented in the first quarter of 2016.		X			
36.	2013 final audit	93	The Board recommended that UNRWA (a) establish a mechanism for mobilizing and uploading all vital project documents in the intranet on regular basis; and (b) review the project process manual and specifically define the project officer responsible for maintaining and archiving all project documents in one location.	(a) Implemented: documents that relate to project management are uploaded on the intranet (Department of Planning page). Documents that are specific to grant agreements are uploaded into a Department of External Relations and Communications database accessible to concerned staff; and (b) agreed and under implementation. The project process manual is being updated to reflect, among other things, the post-enterprise resource planning environment.	The Board assessed that "a" has been implemented; part "b" is subject to the review of project process manual.		X			
37.	2013 final audit	108	The Board recommended that UNRWA: (a) establish steering committees for construction projects as currently required by the project process manual while waiting for the revised manual;	The update to the project procedures manual is linked to the implementation of the new enterprise resource planning system, which is currently planned to be implemented in 2015. The manual is already being updated, but will not be completed before the implementation of the enterprise resource planning system (so as	The Board assessed that finalization of the implementation of the recommendation is subject to updating project process manual and effective implementation of the enterprise resource planning system.		X			

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			and (b) review the project process manual and provide clear guidance on the establishment of project steering committees including composition of the committee members and nature of the projects that deserve steering committee.	to ensure that the manual provides clear and correct guidance). The processes and tools for the manual, such as a steering committee, are included in the update.						
38.	2012 final audit	41	The Board recommended that UNRWA develop a funding strategy to enable it to honour all of its end-of-service liabilities.	As the settlement of the liabilities is linked to the solution of the Palestine refugee issue and to the UNRWA mandate, recommendations related to end-of-service should be made to the General Assembly of the United Nations, from which UNRWA receives its mandate.	The Board has reiterated its previous recommendation (2013) as it has not been implemented.					X
39.	2013 final audit	24	The Board reiterated its previous recommendation that UNRWA set up specific funding arrangements to fund its end-of-service liabilities, for consideration and approval by the appropriate authorities, including the General Assembly.	UNRWA is focused on meeting the immediate humanitarian needs of Palestine refugees within a challenging operational environment. End-of-service liabilities will be addressed following a just and durable solution to the Palestine refugee question. Funding for an end-of-service liability, along with other potential obligations to staff and support to Palestine refugees delivered through UNRWA, will be developed in concert with appropriate authorities. Implementation of a comprehensive package of support will be contingent, once a just and durable solution has been reached, upon the financial support of the international community.	The end-of-service liabilities have not been funded and keep on increasing each year; the Board will therefore remain concerned over this situation until the Agency resolves how the liability will be funded. The Board notes that the General Assembly will obtain this information through the present report.			X		

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40.	2013 final audit	134	The Board recommended that UNRWA develop a contingent plan to support the existing enterprise resource planning system in case of further delays in its implementation.	UNRWA is in negotiation with the current vendor for a service to support the current system until its decommissioning. This service will also cover any further delay in the introduction of the new system.	The Board will have to verify whether negotiations were successful as RAMCO will be in operation until the end of 2015.		X			
41.	2013 final audit	137	The Board recommended that UNRWA allocate sufficient time for internal IT staff to support the monthly closing of accounts, preparation of annual financial statements and other management reports.	The recommendation has been implemented. UNRWA has increased the number of consultants to assist the business to carry out the closure and the reporting processes. There are now three consultants on site and a dedicated off-shore team supporting them.	The Board considered the recommendation as overtaken by events as the preparation of financial statements was done on the RAMCO system, which was decommissioned on 19 April 2015 after the introduction of the enterprise resource planning system.				X	
42.	2013 final audit	143	The Board recommended that UNRWA (a) enhance communication among project governance stakeholders to expedite decision-making by the project sponsors board and avoid further project delays; and (b) through the project governance structure, re-emphasize the need for and achieve	The recommendation has been implemented. The project governance team meets monthly to take decisions, a biweekly progress report is distributed and periodical meetings are held with key stakeholders to ensure timely decision-making. A change control process and software tool is in place to strengthen change control and enforce the reusability of the World Food Programme "Wing II" system.	The Board considered that the recommendation had been overtaken by events as the governance framework of the enterprise resource planning system project was implemented and the new system had become operational on 19 April 2015.				X	

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			the level of reusability of components from the World Food Programme Wing II system as defined in the project charter.							
43.	2013 final audit	149	The Board recommended that UNRWA: (a) ensure regular meetings of the project sponsors board to properly monitor the progress of project implementation; and (b) review its project risk register to include key risks and identify mitigating factors for effective project management.	The recommendation is already executed. UNRWA has verified the minutes of the meetings of the project sponsor board and updated the project risk register.	The Board closed the recommendation after reviewing the minutes of meetings of the project sponsor board and the updated project risk register.	X				
44.	2013 final audit	155	The Board recommended that UNRWA develop a business realization plan for the enterprise resource planning project and integrate it with the project master plan to ensure effective monitoring and the realization of benefits.	A new version of the project plan has been created that includes the requested details. This version is periodically updated.	The business realization plan is still in progress; the Board will review its progress during the interim audit of 2015.		X			

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45.	2013 interim audit	138 and 139	The Board recommended that UNRWA develop the rationale for qualifying a scenario test as pass or fail in an objective way and ensure that it is applied consistently by the test team.	A formal test procedure is under preparation and will be distributed during the second quarter of 2014. A formal, measurable and objective evaluation of the test outcome is enforced and already in use in preparing the test execution. [New response, dated November 2014] "This recommendation has been implemented. New test procedures have been implemented and adopted consistently throughout all the testing sessions executed after the recommendations were received."	The Board assessed the recommendation as overtaken by events. This recommendation was implemented as the test phase of the enterprise resource planning project was completed and became operational on 19 April 2015.				X	
46.	2013 final audit	31	The Board recommended that UNRWA: (a) identify specific IPSAS requirements that are more important for the preparation of financial statements and conduct training for staff in the Finance Department and other departments in order to enhance compliance; and (b) improve coordination between the Finance Department and other departments during the preparation of financial statements to ensure reliability and completeness of reported balances.	IPSAS was fully implemented by UNRWA in 2012. During a timely 12-month establishment phase, the specific IPSAS requirements relevant to operational staff and other applicable departments were identified and subsequently implemented. UNRWA agrees to utilize its knowledge of the IPSAS requirements needed by staff to: (a) conduct relevant training for applicable staff and other relevant departments to enhance compliance with IPSAS requirements; and (b) further improve coordination across the Finance Department and all relevant departments during the preparation of financial statements.	Implementation of the recommendation is still in progress as the training was not conducted to equip the staff on the whole process of financial statements preparation. They expect to conduct training in the second quarter of 2015.		X			

						Status after verification				
No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
47.	2013 final audit	97	The Board recommended that UNRWA: (a) monitor the current trend with regard to programme support costs and ensure that the amount charged is in line with the approved standard rate; and (b) ensure that any deviation from the standard rate is agreed by donors and approved by the Director of Finance on the basis of a valid and documented justification.	Any exceptional deviations from standard programme support cost rates as per the technical instruction No. 219 on budget, such as those requested by specific donors to the Nahr el-Bared Camp project, are subject to approval by the Director of Finance based on written justification provided by the Department of External Relations and Communications.	Implementation of the recommendation is still in progress; the Board's assessment on the improvement will be done during the interim audit of 2015.		X			
48.	2013 final audit	112	The Board recommended that UNRWA: (a) ensure that evidence of staff attendance in an induction course is filed in the respective personal files; (b) consider allocation of funds to cover the cost of induction courses in the forthcoming biennium budget; and (c) consider alternative methods, other than classroom training, for delivery of induction courses at a lower cost where there are budget constraints.	The recommendations are based on audit observations in the Lebanon field office. The last induction course took place on 25 June 2014. Attendance records are placed in staff members' files. Future orientation courses are planned for 2015/2016. Meanwhile, as an alternative method, in June 2014, human resources at the Lebanon field office put together a comprehensive orientation booklet that is sent to all new staff members as an integral part of the appointment package. Signed confirmation letters (indicating the receipt of the orientation handbook) are placed in each new staff member's file as of that date.	The recommendation is still outstanding; the Board will assess its implementation during the interim audit of 2015.		X			

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49.	2013 final audit	117	The Board recommended that UNRWA incorporate identification of individual staff training needs as part of performance evaluation process to minimize cost.	The new ePer system for all staff will require managers to discuss learning needs with staff. Priority for discussion and implementation will be the core needs related to job performance, in line with budget limitations for 2014-15 and organizational priorities for programmatic and organizational reform.	The recommendation is still outstanding; the Board will assess its implementation during the interim audit of 2015.		X			
50.	2013 final audit	121	The Board recommended that UNRWA review the staff table by performing detailed assessment so as to eliminate redundant posts and identify key posts that need to be filled in a timely manner in order to enhance delivery of services to refugees.	The staffing resources are regularly reviewed. An international staffing review was conducted in November 2012 to ensure that the Agency's scarce international staffing resources are allocated in an optimal way. The review recommended three posts to be considered for redeployment. This was not confirmed and therefore, the posts remain allocated as is. The annual class formation exercise regularly reviews the allocation of education staff (two thirds of the Agency's staff members fall under this category). Regular staffing reviews are conducted in other departments as necessary. The indicated long vacancy periods are misleading; it must be taken into consideration that not all posts on the staffing table are actually funded. Furthermore, the operational reality in fields such as the Syrian Arab Republic does not allow for a filling of vacant posts while these are still needed in the long term and cannot be abolished.	UNRWA has not provided to the Board the staff manning table review report for area staff to justify their review.		X			

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51.	2013 final audit	126	The Board recommended that UNRWA expedite the planned initiatives to reduce time taken for recruitment process and enhance service delivery to refugees in a timely manner.	These recommendations are based on observations in the Lebanon field office which indicated that the following initiatives are planned: (a) preparation of an annual recruitment plan; (b) weekly updates to departments; and (c) regular meetings with departments; the annual recruitment plan is currently prepared, the weekly updates as well as regular meetings are already ongoing.	The recommendation has been reiterated as the matter still exists in Lebanon as well as in Jordan and headquarters in Amman, as per the Board's assessment during 2013.		X			
52.	2013 interim audit	117	The Board recommended that UNRWA: (a) review its organizational directives and area staff directives to indicate the time frame for issuing annual reports on limited duration contracts and individual consultants and contractors; (b) enforce compliance with area personnel directive on the preparation of reporting on limited duration contracts and consider splitting the time frame by producing semi-annual performance evaluation reports to enable an early response to non-compliance; and (c) enhance the uniformity and	(a) Organizational directive 29 and area staff directive A/4 (part II, sect. II) on limited duration contracts are currently under review, the amended versions will include clear guidance on reporting requirement; the implementation of the enterprise resource planning system will introduce automated reporting and thus resolve the challenge.	The Board will review the two directives after the completion of the review.		X			

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						Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*	*Reiterated*
			completeness of performance evaluation reports from field offices and headquarters directors.							
53.	2012 final audit	72	The Board recommended that UNRWA: (a) continue to mobilize resources to prevent buildings in bad condition from further deteriorating; (b) prepare a comprehensive long-term asset management plan for its buildings in need of repair, as identified in the valuation report; and (c) develop an asset repair and maintenance policy.	UNRWA has continued to mobilize resources and repair buildings as a priority at each field office. The Agency will continue to make repairs in accordance with priority of categories as identified by the Agency's assessment. The asset management plan is intended to ensure that building conditions are monitored, assessed and repaired on a regular basis. Assessment and implementation for routine maintenance purposes is continuing in all the fields on a yearly basis. Implementation is carried out in accordance with an annual plan which is developed at each field office, identifying priorities within available resources. Policy development and review of the relevant technical instructions is being undertaken.	The Board reviewed the progress and noted the Agency's efforts in mobilizing resources to ensure that each year they maintain a certain number of buildings. In 2014, the Board noted the maintenance of buildings in the West Bank and Lebanon field offices. However, more effort is required to maintain more buildings.		X			
54.	2013 final audit	102	The Board recommended that UNRWA: (a) expedite recruitment of the specific project manager for the Nahr el-Bared Refugee Camp; and (b) ensure the timely submission of designs and all	(a) The project manager for the Nahr el-Bared Refugee Camp has been recruited; (b) to ensure the timely submission of design and all related project requirements to the Directorate General for Urban Planning for clearance to avoid further delays and future cost overruns, communication with the Directorate for clearance and preliminary meetings with a	The Board assessed that part "a" has been implemented; implementation of part "b" will be verified in the interim audit of 2015.		X			

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			project requirements to the Directorate General for Urban Planning in Lebanon for clearance to avoid further delays and future cost overruns.	consultant acting on behalf of the Government of Lebanon in relation to this matter have already taken place. The submission of documentation to the Directorate follows the completion of a validation and preliminary design process, in line with the established participatory design process. Because of the nature of community engagement, it is expected that it will be completed within the next six months and that the relevant documentation will be submitted to the Directorate within this time frame. (Response updated February 2015.)						
55.	2012 final audit	112	The Board recommended that UNRWA: (a) continue monitoring the loan portfolio in the Syrian Arab Republic with a view to improving its operational self-sufficiency to a level that would enable it to cover its operational costs; (b) improve controls by establishing a loan review committee for the management of loans receivable; and (c) ensure that the general controls of the loan management	During 2013, UNRWA's microfinance strategic outlook of the department in the Syrian Arab Republic was to minimize losses, to the extent possible, and to reach a level that would cover its operational costs through developing strategies that meet the risk in the operations. Most importantly it was the currency risk. The Microfinance Department started to evaluate its loans receivable portfolio on a quarterly basis and to record currency exchange losses. The Microfinance Department was able to reallocate and manage currency devaluation in a better and efficient way and was also able to roll out the new management information system in early 2013, mitigating the operational risk. The system was tested in the	The recommendation is still outstanding, as the loan portfolios in Gaza and the Syrian Arab Republic have not improved according to the latest Board's assessment.		X			

						Status after verification				
No.	*Year of audit report*	*Paragraph reference*	*Board's recommendations*	*UNRWA response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Reiterated*
			information system are adequate for the mitigation of ever-growing business risks.	audit of 2013 with a satisfactory outcome. A loan review committee was established to review loans receivable on a quarterly basis and advise management on compliance and any operational risks.						
56.	2013 final audit	185	The Board recommended that the Microfinance Department of UNRWA: (a) improve controls by establishing online loan applications in the new Omni enterprise system in 2014; and (b) closely supervise cashiers' activities and issue instructions to the operations team to strictly follow the operational procedures and adopt proper follow-up procedures with late payments.	Part (a) has already been completed and is now part of the loan application procedure. Part (b) was also completed and the procedural manual updated. Staff were trained on the correct procedures and increased supervision of the branches was introduced to ensure compliance.	The recommendation is still outstanding; the latest review done by the Board of the Deloitte working papers noted that the weaknesses still exist.		X			
57.	2013 final audit	188	The Board recommended that the Microfinance Department of UNRWA pass proper adjusting entries in 2014 to match balances from the register to the ledger by category and include fixed asset module in the new enterprise resource planning	This is being done on a quarterly basis in 2014. With the introduction of the new system the Microfinance Department will have direct access to the asset module and this will no longer require adjusting entries. The system will be operating beginning in 2015.	The Board will review the implementation of this recommendation during the interim audit of 2015 on the new enterprise resource planning system.		X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
			system, which will maintain the link between the asset register and the ledger.							
58.	2013 final audit	192	The Board recommended that the Microfinance Department of UNRWA develop a formal policy and procedure for transferring files exported from the Omni system to the RAMCO system and that it establish a uniform user naming convention for all UNRWA IT resources, including the network and the Omni application.	This is currently done through an interface file that is uploaded to RAMCO each month after which all loan accounts are reconciled between both systems. This will be further enhanced once the enterprise resource planning system is operational.	Implementation of the recommendation is still in progress; the Board will review the interface with the new enterprise resource planning system during the interim audit of the system.		X			
59.	2013 final audit	48	The Board recommended that UNRWA conduct a thorough review of the consultant's report and apply the proposed recommendations to improve the operations of the microcredit community support programme without compromising its basic mandate of helping Palestine refugees to achieve their full potential in human development.	Based on consultations with relief and support services at the field level (Jordan, Lebanon and the West Bank), field-specific recommendations were taken on board, including the freezing of the current lending mechanism at the Jordan field office and coming up with different lending tools, as well as the establishment of a loan tracking system and management information system in the Lebanon field office. However, on the specific recommendations made by the consultants to improve the performance of the microcredit community support programme, further action is being taken by fields to address those recommendations.	The implementation of the recommendation is in progress.		X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
60.	2013 interim audit	18	Absence of a loan management system for the microcredit community support programme. The Board — recommended that UNRWA develop a loan management system for the enhancement of internal control processes and improvement of the level of accuracy on the loan portfolio as well as of the information contained in the financial statements of the microcredit community support programme.	UNRWA agrees with the recommendation. The tender for a management information system was launched in late February 2014 and its implementation is expected six months after contract issuance. The platform will be used by the microcredit community support programme holder and the Finance Department. The Jordan field office is in agreement with the recommendation. UNRWA will explore the possibility of sharing the loan management system, which should be developed during the third quarter of 2014.	Implementation of the recommendation is still in progress.		X			
Total						2	50	1	5	2
Percentage						3	84	2	8	3

Annex II

Summary of assets written off

(United States dollars)

Category (assets, inventory, cash)	*Current year*	*Previous year*	*Increase (decrease)*
Cash	5 244	529	4 715
Inventory	456 000	122 000	334 000
Property	1 348 000	2 350 000	(1 002 000)
Outstanding receivables	146 300	430 000	(283 700)
Outstanding loans receivables	860 000	2 054 000	(1 194 000)
Total	**2 815 544**	**4 956 529**	**(2 140 985)**

Source: UNRWA information.

Annex III

Cases of fraud and presumptive fraud reported to the Board

Case number	*Office*	*Case type*	*Loss (United States dollars)*	*Description*	*Outcome*
INV-14-0005	Division of Internal Oversight Services	Procurement irregularities		Proactive investigation regarding general fraud in procurement.	No fraud substantiated.
INV-14-0052	Amman headquarters	General fraud	No financial loss	Failure to disclose accurate information upon appointment with the Agency.	Substantiated. Report pending.
INV-14-0053	Amman headquarters	Entitlement fraud	No financial loss	Submission of falsified documents to the Agency in connection with request for special leave without pay.	Substantiated. Letter of censure issued to the subject.
INV-14-0054	Amman headquarters	General fraud	No financial loss	Submission of forged letters for human resources purposes.	Substantiated. Staff member terminated.
INV-15-0028	Lebanon field office	Theft	Approximately 50	Theft of stationery and other items from the Agency.	Unsubstantiated. In addition to a lack of evidence, the alleged subject retired from the Agency.
INV-15-0036	Lebanon field office	Theft	Approximately 500	Computer hardware was stolen from information technology storage.	Recorded for information. No subject was identified.
INV-15-0021	Lebanon field office	General fraud	No financial loss	Submission of forged university certificate to human resources.	Unsubstantiated.
INV-15-0046	Lebanon field office	Theft	120 000	Theft of $120,000 from an UNRWA safe (claimed it was in lieu of resignation entitlements).	Substantiated. The subject has since resigned from the Agency. Legal proceedings are pending to recover the money.

Case number	*Office*	*Case type*	*Loss (United States dollars)*	*Description*	*Outcome*
INV-14-0073	West Bank field office	General fraud	2 454	Misuse of Agency vehicle by recording "private travel" as "duty travel".	Substantiated. Disciplinary measure/final disposition is pending.
INV-14-0100	West Bank field office	General fraud	No financial loss	A staff member is alleged to have deceived the Agency by using sick leave instead of annual leave.	Case is suspended as the staff member voluntarily took early retirement.
INV-14-0106	West Bank field office	Theft	Amounts not determined	A staff member is alleged to have stolen fuel from UNRWA vehicles. A written admission was obtained from the staff member.	Substantiated. Disciplinary measure/final disposition is pending.

Chapter III

Certification of the financial statements

Letter dated 30 March 2015 from the Director of Finance of the United Nations Relief and Works Agency for Palestine Refugees in the Near East addressed to the Chair of the Board of Auditors

Pursuant to financial regulations 11.4 and 12.1, I have the honour to submit the financial statements for the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2014.

I certify that all transactions have been properly recorded in the accounting records and properly reflected in the Agency's financial accounts and appended statements, which I hereby certify as accurate and representative of the Agency's operating activities and the financial state of affairs as at 31 December 2014.

(*Signed*) Bernard **Laufenberg**
Director of Finance

Chapter IV

Financial report for the year ended 31 December 2014

A. Introduction

Statement of the Commissioner-General

1. In accordance with regulations 11.2 and 11.4 of the Financial Regulations and Rules of the United Nations Relief and Works Agency for Palestine Refugees in the Near East, I have the honour to submit the financial statements of UNRWA for the year ended 31 December 2014, which I hereby approve. The financial statements have been prepared and certified as correct by the Director of Finance.

B. Financial and budget analysis

Summary

2. The year 2014 has been another challenging one for UNRWA, its donors and its beneficiaries. The Agency continues to play an essential role in providing vital services for the well-being, human development and protection of more than 5 million registered persons and the amelioration of their plight, pending the just resolution of the question of Palestine refugees. Throughout 2014, UNRWA sustained its efforts to meet the needs of Palestine refugees across its five fields of operation, despite the challenges associated with the dramatic deterioration of the political and security environment, specifically, access problems in the West Bank, the continuing blockade of the Gaza Strip, the persistent armed conflict in the Syrian Arab Republic and the security concerns with which the Agency is faced on a daily basis.

3. Notwithstanding the difficult financial climate, donors continued to provide strong support, with $1,321.2 million in contributions, allowing UNRWA to continue to provide assistance to beneficiaries and to address emergencies in the Gaza Strip and the Syrian Arab Republic.

4. The financial statements have been prepared on the accrual basis of accounting, in accordance with the requirements of IPSAS. Where IPSAS are silent concerning a specific matter, the appropriate International Financial Reporting Standard or International Accounting Standard is applied.

5. A new accounting procedure was implemented in 2014 to ensure the accurate recording of non-Agency assets, as required by IPSAS.

6. The Agency provides shelters and non-Agency installations to beneficiaries and other parties free of charge. During the construction period, UNRWA effectively owns the structure, taking responsibility for it until such time as it is handed over to the beneficiary or other parties. At handover, the title is given to the beneficiary or other parties and, accordingly, UNRWA has no further responsibility for the structure, with retroactive effect. The accounting entries were effected in 2014; however, to achieve comparability, the presentation of the 2013 financial statement was amended to effect changes relating to an increase in inventory and net equity in the amount of $44.4 million.

7. The previous biennial budget (for 2013-2014) was presented on a modified cash basis. As that basis differs from the accrual basis applied to the financial statements, reconciliation between the budget and the cash flow statement is provided in accordance with the requirements of IPSAS.

Financial performance for 2014

8. The Agency's total revenue and income for 2014 was $1,342.2 million, compared with total expenses of $1,298.5 million, resulting in a net surplus of $43.7 million for 2014.

9. Detailed information on the financial performance of each fund is contained in note 33 to the financial statements and is summarized in table IV.1.

Table IV.1

Summary financial performance by fund for the period ended 31 December 2014

(Thousands of United States dollars)

	Unearmarked activities	*Earmarked activities*					
	General Fund	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund elimination*	*Total*
Total revenues	637.2	32.1	9.1	343.9	352.7	(32.8)	1 342.2
Total expenses	667.6	47.1	9.6	235.4	371.4	(32.6)	1 298.5
Surplus/(deficit) for the year	**(30.4)**	**(15.0)**	**(0.5)**	**108.5**	**(18.7)**	**(0.2)**	**43.7**

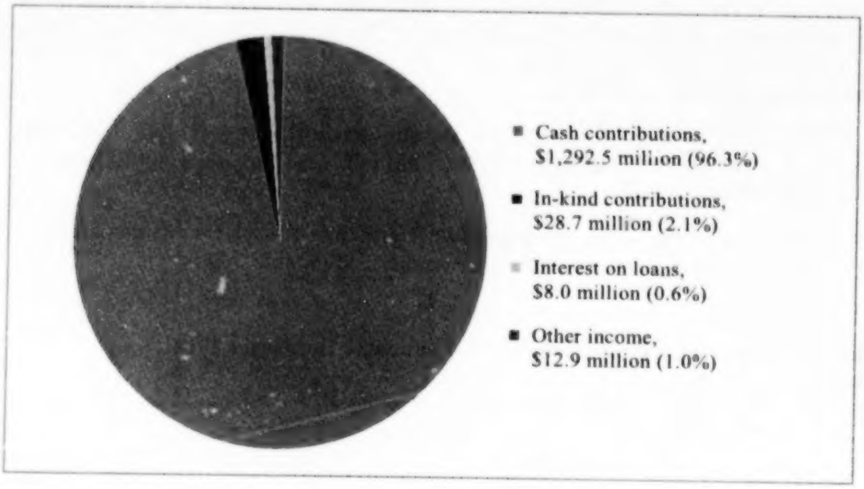
10. The General Fund, restricted funds, Microfinance Department and projects fund recorded deficits of $30.4 million, $15.0 million, $0.5 million and $18.7 million, respectively.

11. The emergency appeals fund recorded a surplus of $108.5 million, owing primarily to revenue recognized for projects against which expenses will be incurred in future periods.

Revenue analysis

12. Voluntary cash contributions are the primary source of revenue for the Agency, providing more than 97 per cent ($1,292.5 million) of total revenue and income. In kind contributions for earmarked activities (restricted funds, emergency appeals and projects) recognized under IPSAS were valued at $28.7 million. This is an important element, allowing the Agency to carry out its activities, and includes food and medical supplies, school textbooks, in-kind services for consultancy and project staff and the use of land for UNRWA facilities, such as schools and health clinics.

Figure IV.I
Revenue and income sources

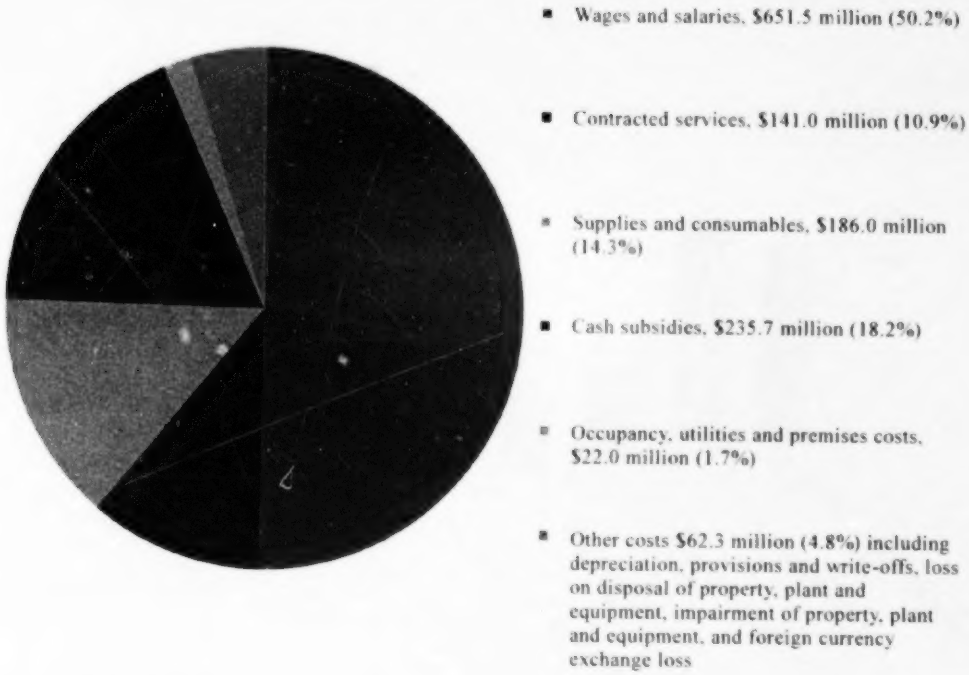


13. All key donors reaffirm their support every six months at a semi-annual meeting of the Advisory Commission. UNRWA is also actively diversifying its funding base by successfully targeting and seeking an increase in donations from emerging markets, such as the Middle East.

Nature of expense analysis

14. The Agency spent a total of $1,298.5 million in 2014. Staff costs of $651.5 million represented 50 per cent of total expenses. As already highlighted, accrual accounting for post-employment and other long-term employee benefits requires that the cost of the schemes be recorded as the benefits are earned by staff, rather than on a pay-as-you-go basis. This methodology allows the Agency to better account for the true cost of employing its staff on an annual basis.

Figure IV.II
Expense analysis by nature of expense



15. A total of $141.0 million was spent on contracted services, representing expenses relating to the Agency's engagement of third parties to perform work on its behalf. Of that amount, $64.5 million was spent on equipment and construction, which includes shelters and equipment that were donated to UNRWA beneficiaries and therefore expensed, as well as minor equipment for use by the Agency. A total of $19.7 million under the category of contracted services was spent on hospital services for the benefit of refugees.

16. A total of $235.7 million was spent on subsidies, including $174.9 million distributed to beneficiaries providing selective cash assistance for conflict-affected Palestine refugees in the Syrian Arab Republic, food security and rent subsidies. The sum of $48.4 million was provided as subsidies for the construction and repair of shelters, and $5.2 million was provided for patient subsidies.

17. A total of $186.0 million was spent on supplies and consumables, including $96.9 million for basic commodities and $25.6 million for fresh food. The amount of $23.3 million was spent on medical supplies, and $5.4 million was spent on text and library books. The sum of $6.9 million was spent on transportation supplies.

18. Occupancy and utility costs totalled $22.0 million in 2014. Other expenses, amounting to $62.3 million, included depreciation, provisions and write-offs, loss on disposal, impairment of fixed assets and foreign currency exchange loss.

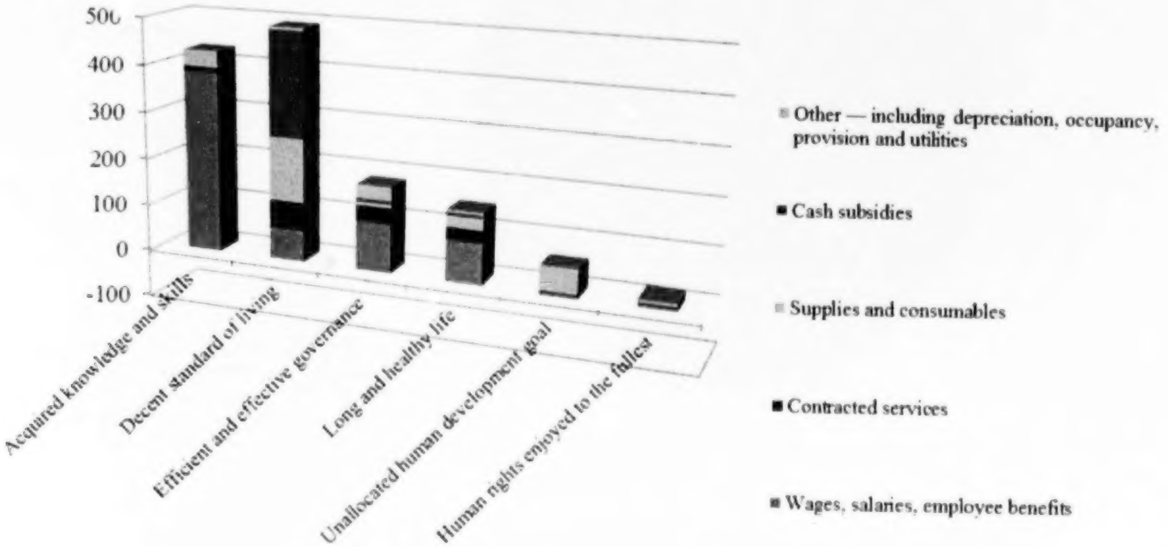
Human development goals and Agency programmes: expense analysis

19. As part of its planning approach, UNRWA has five human development goals to provide it with direction in fulfilling its mission of helping Palestine refugees. The goals, and the amount spent on each, are shown in figure IV.III.

Figure IV.III

Expense analysis by human development goal[a]

(Millions of United States dollars)



[a] 32.5 million in inter-segment eliminations excluded from analysis.

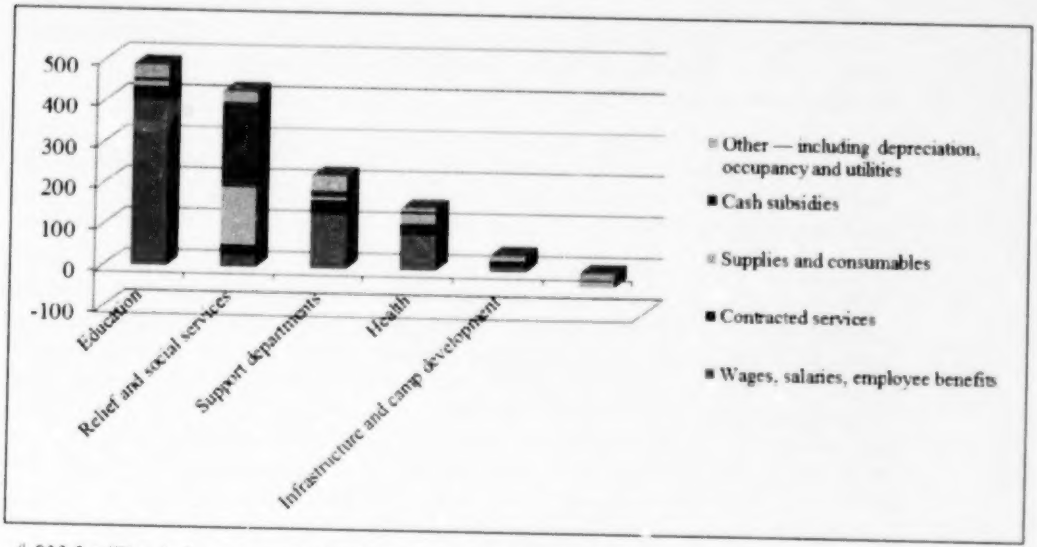
20. The Agency is functionally organized under five programmes that provide services to its UNRWA beneficiaries or internal support services. The 2014 expenses by programme, as shown in figure IV.IV, follow a similar expense profile to those categorized by human development goal.

21. The amount of $430.7 million, representing 33 per cent of the Agency's 2014 expenses, was spent on the goal of acquired knowledge and skills and delivered through the education programme ($487.6 million). The objectives are to ensure universal access to and coverage of basic education, enhance education quality and outcomes against set standards, and improve access to education opportunities for learners with special education needs. The education programme also provides vocational and technical training and encourages the progression of students to higher education through scholarships. Given the nature of the programme and goal, the vast majority of the expenditure in this area is spent on educational staff wages and salaries.

Figure IV.IV

Expense analysis by programme[a]

(Millions of United States dollars)



[a] $32.5 million in inter-segment eliminations excluded from analysis.

22. An amount of $491.8 million, or 38 per cent of UNRWA expenditure, supported the human development goal of a decent standard of living, delivered largely through the relief and social services and infrastructure and camp development programmes ($426.8 million and $39.7 million, respectively). The objectives are to reduce abject poverty, mitigate the effects of emergencies on individuals, offer inclusive financial services and increased access to credit and savings facilities, improve employability and improve the urban environment. Twenty-eight per cent of the expenditure ($136.2 million) dedicated to the pursuit of this goal was spent on supplies and consumables, including the provision of food aid for Palestine refugees. An additional $221.8 million was provided in the form of cash subsidies.

23. An amount of $181.6 million, or 14 per cent of the Agency's 2014 expenses, supported the goal of effective and efficient governance, which is accomplished largely through the support departments programme ($226.2 million). The aim is to provide overall direction and control of UNRWA and ensure efficient operations and effective financial and risk management. The programme includes the effective management of personnel and financial resources, oversight, internal communication, legal support, fundraising, advocacy and outreach to external interlocutors. Fifty-seven per cent of the expenditure dedicated to pursuing this goal ($104.3 million) was spent on wages and salaries.

24. The objectives of the human development goal of a long and healthy life are to ensure universal access to quality comprehensive primary health care, protect and promote family health, and prevent and control diseases. An amount of $150.8 million (12 per cent of the Agency's total expenditure) was spent in pursuit of this goal, which is supported through the health programme ($150.7 million). Nearly 58 per cent

($87.5 million) of the expenditure dedicated to pursuing this goal was spent on wages and salaries, with 16 per cent ($24.6 million) spent on medical supplies and consumables and 17 per cent ($26.4 million) on contracted services to enable Palestine refugees to gain access to health-care services and to support the environmental health subprogramme. An additional 4 per cent ($6.6 million) was spent on cash subsidies to further enable Palestine refugees to gain access to secondary and tertiary health-care services.

25. A total of $58.0 million was spent on projects that have not been assigned to a human development goal, for example, emergency appeals. Of this amount, 3 per cent ($1.7 million) was spent on contracted services and 85 per cent ($49.1 million) on programme support costs, reflecting the project nature of the unassigned costs.

26. Lastly, $18.0 million was spent on the human development goal of human rights enjoyed to the fullest extent possible. Objectives include ensuring that service delivery meets the protection needs of beneficiaries, safeguarding and advancing the rights of Palestine refugees, strengthening the capacity of refugees to formulate and implement sustainable social services in their communities, and ensuring that Palestine refugee registration and determination of eligibility for UNRWA services are carried out in accordance with relevant international standards. The services provided for the achievement of those objectives are delivered largely through the relief and social services programme, along with the services provided to achieve the objectives of the human development goal of a decent standard of living.

Geographical location: expense analysis

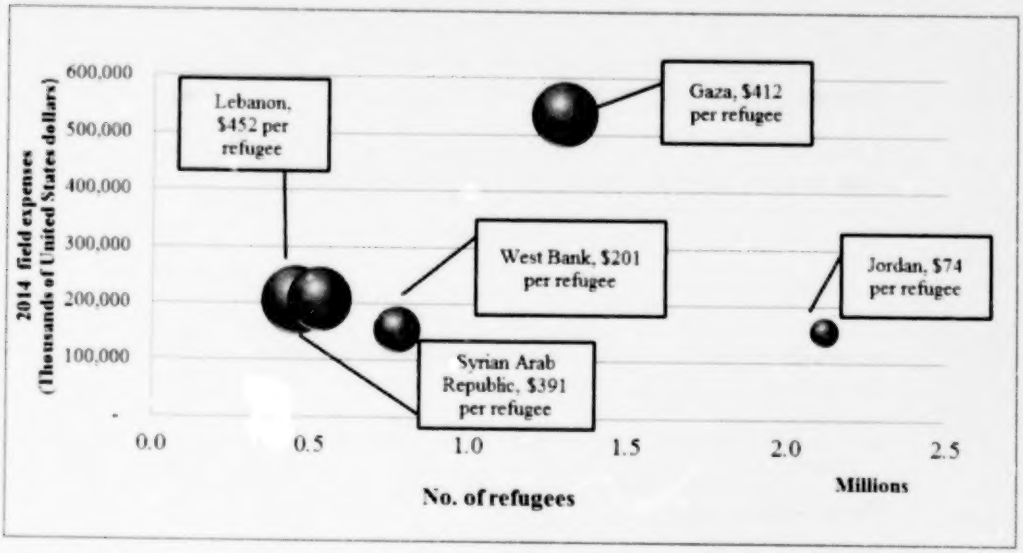
27. Although UNRWA goals and services are delivered primarily within a programme approach, its operations are managed on a field basis. UNRWA operates in five fields: Jordan, Lebanon, the Syrian Arab Republic and the occupied Palestinian territory (the West Bank, including East Jerusalem, and the Gaza Strip). Each field provides similar services, but is distinctive to some extent owing to the particular political, humanitarian and economic contexts in which the field operates and the status and rights of the Palestine refugees enjoyed in it. Figure IV.V shows the costs of UNRWA services per refugee for each field. The different levels of expenditure reflect the situations prevailing in each of the fields.

28. The average 2014 expense per refugee in the Gaza field office is $412. The Gaza Strip has a population of more than 1.5 million, including some 1.3 million registered Palestine refugees. The ongoing blockade of the Gaza Strip has severely affected the economy and the enjoyment of a range of human rights by Palestine refugees, which is reflected in the average expense per refugee in the field. The field office supports eight camps, 245 schools, two vocational and technical training centres, 22 primary health centres, six community rehabilitation centres and seven women's programme centres.

29. The Lebanon field office has the lowest number of registered refugees, at just over 449,957, and the highest average 2014 expense per refugee, at $452, which reflects the conditions prevailing in Lebanon. Palestine refugees do not enjoy several basic human rights (e.g. they have restricted access to the local labour market) and many live in UNRWA refugee camps. The field office supports 12 camps, 69 schools, two vocational and technical training centres, 27 primary health centres, one community rehabilitation centre and nine women's programme centres.

Figure IV.V

Average 2014 expenses per registered refugee, by field[a]



[a] $75.9 million in headquarters expenses and $32.5 million in inter-segment eliminations excluded from analysis.

30. The West Bank field office serves more than 770,000 registered Palestine refugees, with one quarter of them living in 19 refugee camps. West Bank refugees have been hard hit by closures imposed on the West Bank by the Israeli authorities, as historically they have been largely dependent on income from work inside Israel. The average 2014 expense per registered refugee in the West Bank is $201. In addition to the 19 camps, the field office supports 97 schools, three vocational and technical training centres, 42 primary health centres, 15 community rehabilitation centres and 18 women's programme centres.

31. The Syrian Arab Republic field office is mandated to provide services to nearly 530,000 Palestine refugees living in the official camps and the three unofficial camps in the Syrian Arab Republic. The average 2014 expense per registered refugee is $391. The ongoing armed conflict in the Syrian Arab Republic has affected the economy, thus impacting the Palestine refugee community. The field office supports nine camps, 94 schools, the Damascus Training Centre, 23 primary health centres, five community rehabilitation centres and 13 women's programme centres.

32. Lastly, over 2,100,000 Palestine refugees are registered in Jordan. All Palestine refugees in Jordan have full citizenship with the exception of some 140,000 refugees originally from Gaza, who are eligible for temporary passports but are not entitled to vote or to work in government. The lowest average 2014 expense per refugee, at $74, reflects the situation of Palestine refugees living in Jordan. The field office supports 10 camps, 173 schools, two vocational and technical training centres, 23 primary health centres, eight community rehabilitation centres and 12 women's programme centres.

Financial position at the end of 2014

33. The Agency's net assets/equity increased from $274.5 million (restated) as at 31 December 2013 to $320.1 million as at 31 December 2014.

34. The financial position of each fund is detailed in note 33 to the financial statements and is summarized in table IV.2.

Table IV.2

Summary financial position by fund as at 31 December 2014

(Millions of United States dollars)

	Unearmarked activities	*Earmarked activities*					
	General Fund	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund elimination*	*Total*
Current assets	90.5	4.4	30.1	164.8	226.9	(11.6)	505.1
Non-current assets	442.7	13.8	2.5	0.5	26.5	–	486.2
Total assets	**533.2**	**18.2**	**32.6**	**165.3**	**253.5**	**(11.6)**	**991.3**
Current liabilities	136.2	5.3	1.3	12.4	22.8	(11.5)	166.5
Non-current liabilities	492.0	–	12.7	–	–	–	504.7
Total liabilities	**628.2**	**5.3**	**14.0**	**12.4**	**22.8**	**(11.5)**	**671.2**
Net assets/equity	**(95.0)**	**13.0**	**18.6**	**152.9**	**230.7**	**(0.1)**	**320.1**

35. The negative net assets/equity position of the General Fund is due primarily to the significant post-employment benefits liabilities, which have been recognized for the first time in the financial statements.

36. The net assets/equity balance of the projects fund showed a balance of $230.7 million, due primarily to contributions received or pledged for specific projects against which expenses are expected to be incurred in future years.

37. Net assets/equity is divided into fund balances of $303.8 million and reserves of $16.3 million.

38. Although there is a negative net current asset balance for the General Fund, the net current assets (current assets less current liabilities) of the Agency were $338.6 million as at 31 December 2014 (compared with $294.6 million (restated) as at 31 December 2013), indicating positive short-term liquidity. The Agency's current assets amount to 51 per cent of its total assets, whereas current liabilities constitute 25 per cent of total liabilities.

Cash, cash equivalents and investments

39. Total cash amounted to $305.5 million as at 31 December 2014, covering four to five months of operations (based on average monthly cash outflows in 2014). UNRWA holds no short-term investments.

Receivables

40. Contributions receivable represent confirmed pledges outstanding from donors that are due within 12 months and were valued, net of allowances for estimated reductions in contribution revenue and doubtful accounts, at $38.2 million as at 31 December 2014, owing primarily to projects ($18.8 million) and emergency appeals ($2.0 million).

41. Accounts receivable, net of allowances, were valued at $42.6 million as at 31 December 2014. This amount relates primarily to significant value-added tax refund claims of $100.1 million, which are still due to the Agency for services and goods procured for the West Bank and the Gaza Strip, as well as $3.8 million related to personal accounts of UNRWA staff members. Loans receivable, net of allowances, were valued at $23.8 million and relate to loans from the Microfinance Department and the microcredit community support programme. Of this amount, $21.2 million relates to short-term (current) loans receivable.

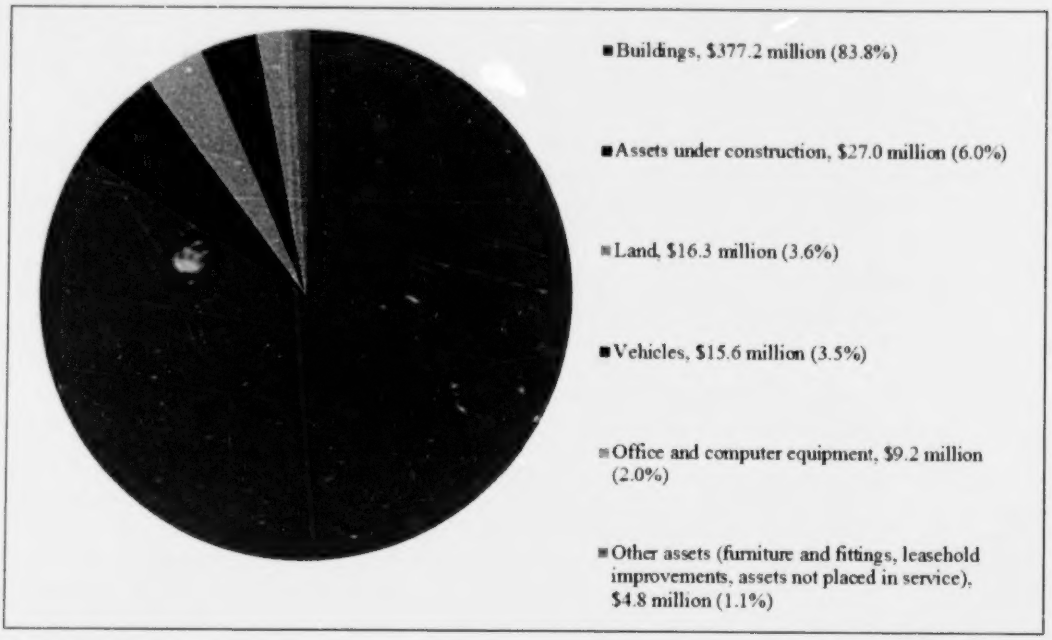
Inventories

42. The value of the Agency's inventory at the end of 2014 was estimated at $85.6 million, reflecting a decrease of $6.4 million (restated) compared with 31 December 2013. Assets included shelters under construction ($34.9 million), non-Agency installations ($7.6 million) and warehouse inventory ($33.8 million), as well as inventory in transit valued at $3.7 million, consisting of medical supplies, food, motor transport and general supplies to be distributed to Palestine refugees. Pharmacy/health clinic inventory was valued at $5.3 million, and production unit inventory for the embroidery centre located in the Gaza Strip was valued at $0.3 million.

Plant, property and equipment

43. The total net carrying amount of property, plant and equipment as at 31 December 2014 was $450.0 million, representing 45 per cent of total Agency assets. This item is composed mainly of buildings used for the provision of services to UNRWA beneficiaries.

Figure IV.VI
Property, plant and equipment



44. Assets under construction amounted to $27.0 million as at 31 December 2014, relating largely to specific construction projects under the restricted funds and projects segments. Upon the completion of capital projects using earmarked funds, assets are transferred to the General Fund for use in the delivery of the Agency's core services to Palestine refugees.

45. Land was valued at $16.3 million as at 31 December 2014. This figure appears relatively low because host Governments and some charitable organizations provide the use of land for no or nominal rent to UNRWA for the benefit of Palestine refugees. The leases under these contracts have been assessed as operating leases, and therefore such land is not included in the UNRWA balance sheet.

Employee benefits liabilities

46. The Agency has significant liabilities relating to post-employment and other long-term employee benefits. Those liabilities amounted to $560.3 million as at the end of 2014, reflecting an increase of $33.7 million during the year. The employee benefits liabilities represent 83.5 per cent of the Agency's liabilities, with $65.5 million categorized as current liabilities and $494.8 million as non-current liabilities. Actuarial valuations have been used for termination and separation costs, employee disability and death-in-service benefits, accumulated annual leave, after-service health insurance and repatriation benefits.

Budgetary analysis

Basis of the budget

47. The UNRWA budget figures are determined on a modified cash basis (i.e. United Nations system accounting standards) and disclosed in the statement of comparison of budget and actual amounts (statement V) as the original budget derived from the 2014-2015 programme budget (Blue Book), as recommended by the Advisory Committee on Administrative and Budgetary Questions and endorsed by the General Assembly.

Explanation of material differences

48. The 2014 programme budget for General Fund, projects and in-kind donations, as reflected in the Blue Book for 2014-2015, amounted to $979.0 million (United Nations system accounting standards view). This is disclosed in financial statement V as "original" budget. In compliance with the United Nations system accounting standards, the final 2014 programme budget was $1,236.7 million, representing an increase of $257.7 million, or 26.3 per cent. This is disclosed in financial statement V as "final" budget. The amount of $257.7 million reflects an increase in the final budget, due chiefly to an increase in the final projects budget.

C. Enhancing transparency and accountability

49. Financial regulation 5.2 requires that the Commissioner-General of UNRWA maintain a system of internal controls to provide for an effective current examination or review of financial transactions to ensure the regularity of the receipt, custody and disposal of the resources of the Agency, to ensure the conformity of all expenses with the provisions of the Financial Regulations, and to detect any uneconomic use of the resources of the Agency.

50. The Agency has a system of internal controls that are intended to safeguard assets, ensure adherence to regulations and rules, including management policies and procedures, and prevent fraud. To enhance transparency and control and ensure that no single individual has the final say in decisions, most high-level managerial responsibilities and decisions are administered by committees. The Agency has established detailed instructions and procedures to ensure effective financial administration and the exercise of economy. There are also organizational directives to guide the day-to-day running of the Agency and ensure adherence to internal controls.

51. In addition, the annual workplan of the Department of Internal Oversight Services includes reviews of the Agency's system of internal controls and makes recommendations for improvements. The Department's workplan and resulting reports are considered by the Agency's independent external oversight body, the Advisory Committee on Internal Oversight, which provides advice on this and financial accountability in general to the Commissioner-General.

52. Furthermore, since 2010, monthly financial reports have been issued to the members of the UNRWA Management Committee and to major donors. This has increased transparency both internally and externally. The reports to senior management have served to strengthen its focus on identified financial risks.

D. Enterprise and financial risk management

Enterprise risk management

53. A broad spectrum of risks is associated with the existence and the operations of UNRWA. The risks fall mainly in the broad categories of operational, environmental and financial risk. The management of risks is aimed at reducing the Agency's exposure to various forms of loss and, more critically, to shortcomings in the delivery of services to the Palestine refugees in the areas of education, health, relief and social services, and infrastructure and camp improvement.

54. "Operational risk" refers mainly to the risk of failing to deliver the services for which, according to its mandate, the Agency exists. Such risk is managed through proper planning, control and performance reviews and evaluations in the Agency's main areas of operation (education, health, relief and social services, and infrastructure and camp improvement).

55. Operational risk is also managed at the field level because, although the five fields in which UNRWA operates share similarities, they are also distinctive. In recognition of this, in 2009, responsibility for the delivery of services to UNRWA beneficiaries was devolved to the fields. While guided by the Agency's goals and programmes of priority services, this devolution to operational fields has provided greater discretion to field offices in the provision of services geared towards local needs, taking into account the realities in the field and the field's available resources. Such devolution, along with centralized policymaking and the regular monitoring of results, provides for enhanced management of the Agency's operational risk.

56. "Environmental risk" is the inherent risk associated with the volatile nature of the environment in which the Agency operates. Such risk is managed through recognition of the potential danger and the political and security concerns posed by the conflicts in the greater Middle East, particularly in the areas in which the Agency operates: Jordan, the Syrian Arab Republic, Lebanon, the West Bank and the Gaza Strip. The security alerts are set at the appropriate levels, and all risk-mitigating elements are installed and monitored on an ongoing basis.

Financial risk management

57. The Agency is prone to exposure to various forms of financial risk, the greatest of which is the risk of failure to have sufficient financial resources to achieve the planned objectives and activities. The source of funding for operations aimed at meeting the objectives of the Agency and the needs of the refugees is predominantly the donor community. The uncertainty surrounding the timing and the actual amounts of voluntary contributions also poses some financial risk when it comes to planning. Such risk is managed in the best way possible by considering the available information and providing for inflows in the most prudent manner.

58. The Agency's activities expose it to various financial risks, primarily the effects of changes in foreign currency exchange rates, given that most contributions are in currencies other than the Agency's reporting currency, the United States dollar. Consequently, UNRWA financial risk management focuses on the unpredictability of foreign exchange rates and seeks to minimize, where feasible, potential adverse effects on the Agency's financial performance. Financial risk

management is carried out by a central treasury function using UNRWA technical guidelines covering areas of financial risk, such as foreign exchange, the use of derivative financial instruments and the investment of excess liquidity. There is no perceived risk that receivables and payables will not be liquidated when they fall due.

59. The Agency's employee benefits liabilities totalled $560.3 million as at 31 December 2014. UNRWA has sought advice from independent actuaries in establishing the value of those liabilities. The funding of employee benefits liabilities remains a long-term risk for the Agency.

E. Responsibility

60. In accordance with regulations 11.2 and 11.4 of the Financial Regulations and Rules of UNRWA, I am pleased to submit the Agency's financial statements, which have been prepared under IPSAS (see chap. V). The financial statements have been certified as correct by the Director of Finance.

Chapter V

Financial statements for the year ended 31 December 2014

United Nations Relief and Works Agency for Palestine Refugees in the Near East

I. Statement of financial position as at 31 December 2014

(Thousands of United States dollars)

	Reference	*31 December 2014*	*31 December 2013 (restated)*
Assets			
Current assets			
Cash and cash equivalents	Note 4	305 454	278 395
Short-term loans receivable	Note 5	21 178	18 682
Contributions receivable	Note 6	38 188	23 595
Accounts receivable	Note 7	42 607	52 169
Other current assets	Note 8	7 241	7 435
Inventories	Notes 3, 9	85 564	92 006
Derivative financial assets	Note 10	4 877	–
Non-current assets			
Other non-current assets	Note 8	234	325
Long-term loans receivable	Note 5	2 594	2 395
Property, plant and equipment	Note 11	449 985	442 920
Intangible assets	Note 12	33 346	17 337
Total assets		**991 268**	**935 258**
Liabilities			
Current liabilities			
Payables and accruals	Note 13	86 551	104 050
Employee benefits	Notes 14, 15	65 482	53 341
Derivative financial liabilities	Note 10	6 755	82
Other current liabilities	Note 16	5 145	13 213
Advance contributions	Note 17	2 608	6 950
Non-current liabilities			
Employee benefits	Notes 14, 15	494 786	473 216
Other non-current liabilities	Note 13	9 875	9 875
Total liabilities		**671 202**	**660 727**
Net assets		**320 066**	**274 531**
Net assets/equity			
Revaluation and other reserves		(11 302)	(11 776)
Capital reserve: microcredit community support programme and Microfinance Department	Note 19	27 562	26 193
Accumulated surplus	Note 3	303 806	260 114
Total net assets/equity		**320 066**	**274 531**

United Nations Relief and Works Agency for Palestine Refugees in the Near East

II. Statement of financial performance for the year ended 31 December 2014

(Thousands of United States dollars)

	Reference	*31 December 2014*	*31 December 2013*
Revenue			
Cash contributions	Note 20	1 292 525	1 100 771
In-kind contributions	Note 21	28 663	21 303
Interest on loans	Note 22	8 049	8 187
Interest on bank deposits	Note 23	453	522
Other revenue			
Foreign currency exchange gain	Note 24	–	5 972
Programme support cost recovery	Note 25	98	136
Financial derivative gain/(loss)	Note 10	3 899	(36)
Miscellaneous revenue	Note 26	8 499	5 067
Total revenue		**1 342 186**	**1 141 922**
Expenses			
Wages, salaries and employee benefits	Note 27	651 500	628 038
Supplies and consumables	Note 28	186 027	147 260
Occupancy, utilities and premises costs	Note 29	21 968	17 727
Contracted services	Note 30	140 969	124 127
Subsidies	Note 31	235 711	156 753
Depreciation and amortization	Notes 11, 12	24 578	24 022
Provisions and write-offs	Note 32	19 458	13 434
Loss on disposal	Note 11	1 348	2 350
Impairment of property, plant and equipment	Note 11	593	4 748
Foreign currency exchange loss	Note 24	16 343	–
Total expenses		**1 298 494**	**1 118 459**
Surplus for the year		**43 692**	**23 463**

United Nations Relief and Works Agency for Palestine Refugees in the Near East

III. Statement of changes in net assets/equity for the year ended 31 December 2014

(Thousands of United States dollars)

	Revaluation and other reserve[a]	*Reserves, microcredit community support programme and Microfinance Department*	*Accumulated surplus deficit – unearmarked*	*Accumulated surplus deficit – earmarked (restated)*	*Total*
Balance at 1 January 2014	**(11 776)**	**26 193**	**(68 594)**	**284 335**	**230 158**
Change in accounting policy[b]	–	–	15 592	28 781	44 373
Balance at 1 January 2014 as restated	**(11 776)**	**26 193**	**(53 002)**	**313 116**	**274 531**
Changes in net assets/equity for 2014					
Surplus/(deficit) for the period	–	–	(30 382)	74 074	43 692
Loss on revaluation of derivative financial instruments	(1 795)	–	–	–	(1 795)
Reserves, microcredit community support programme and Microfinance Department	–	1 369	–	–	1 369
Actuarial gain on staff termination liabilities	2 269	–	–	–	2 269
Total net assets/equity	**(11 302)**	**27 562**	**(83 384)**	**387 190**	**320 066**

[a] See note 33 for more detailed information.

[b] See note 3.

United Nations Relief and Works Agency for Palestine Refugees in the Near East

IV. Statement of cash flow for the year ended 31 December 2014

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Cash flows from operating activities		
Surplus for the year	43 692	23 463
Adjustment for non-cash items		
Add depreciation	24 578	24 022
Loss on disposal	1 348	2 350
Impairment of property, plant and equipment	593	4 748
Actuarial gain/(loss) on employee benefit liabilities	2 269	(139)
Increase in allowance for doubtful debts	17 993	8 805
(Increase)/decrease in inventories	6 442	(18 001)
(Increase)/decrease in contributions receivable	(15 074)	748
(Increase) in accounts receivable	(7 710)	(13 159)
(Increase)/decrease in loans receivable	(2 936)	2 219
(Increase)/decrease in other assets	285	(3 429)
Increase/(decrease) in accounts payable and accruals	(17 499)	42 035
Increase in leave encashment and employee benefits	33 711	29 338
Increase/(decrease) in other liabilities	(8 068)	2 457
(Decrease) in advance contributions	(4 341)	(13 048)
Net cash from operating activities	**75 283**	**92 409**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	150	140
Purchase of property, plant, equipment and adjustment	(33 734)	(36 562)
Purchase of intangible assets	(16 009)	(10 462)
Net cash from investing activities	**(49 593)**	**(46 884)**
Cash flows from financing activities		
Increase in capital reserve for Microfinance Department and microcredit community support programme	1 369	437
Net cash from financing activities	**1 369**	**437**
Net increase in cash	27 059	45 962
Cash balance at the beginning of the year	278 395	232 433
Cash balance at the end of the year	**305 454**	**278 395**

United Nations Relief and Works Agency for Palestine Refugees in the Near East

V. Statement of comparison of budget and actual amounts for the year ended 31 December 2014

(Thousands of United States dollars)

		Budget amounts		*Actual on comparable basis*	*Variances: final budget and actual*
	Reference	*Original*	*Final*		
Staff costs					
International staff		30 798	42 770	37 317	5 453
Area staff					
Basic salary		359 256	339 154	338 270	884
Hazard pay and special elements		–	4 803	6 634	(1 831)
Provident Fund Agency contribution		53 472	50 521	49 477	1 044
Special professional occupational allowance, special occupational allowance and others		10 581	10 445	10 334	111
Overtime and excess hours supplement		632	1 324	1 401	(77)
Currency adjustment factor		12 458	29 606	38 469	(8 863)
Special allowance		19 372	18 032	18 380	(348)
Health-related expenses		8 120	8 482	8 624	(142)
Miscellaneous allowances		294	50	79	(29)
Severance cash payment out		13 500	13 500	19 502	(6 002)
Annual leave expenses		–	–	35	(35)
Limited duration contract and temporary staff		10 952	35 222	27 871	7 351
Total staff costs (A)	Note 34	**519 436**	**553 909**	**556 393**	**(2 484)**
Non-staff costs					
Purchase of inventories		45 298	65 474	64 749	725
Non-inventory supplies		16 769	45 736	36 936	8 800
Utilities		7 122	5 753	5 958	(205)
Maintenance of premises		8 341	11 126	14 064	(2 938)
Equipment and non-capital construction		110 415	100 991	81 975	19 016
Training		10 399	6 711	3 857	2 854
Travel		1 999	3 008	2 507	501
Administrative support services		5 644	9 199	8 161	1 038
Consultancy services		2 534	20 979	15 415	5 564
Hospital services		19 080	18 739	20 723	(1 984)
Miscellaneous services		17 504	68 113	49 688	18 425
Subsidies to hardship cases		12 223	188 103	183 127	4 976
Subsidies to patients		5 276	6 271	5 678	593
Third-party subsidies		22 069	1 869	1 540	329
Other subsidies		362	16 677	14 243	2 434
Cost recovery		(1 263)	(23 228)	(2 917)	(20 311)
Total non-staff costs (B)	Note 34	**283 774**	**545 523**	**505 705**	**39 817**
Reserves (C)		**80 306**	**58 302**	–	**58 302**
Capital expenditure (D)		**95 486**	**79 049**	**67 425**	**11 624**
Total resources requirements (A+B+C+D)	Note 34	**979 001**	**1 236 783**	**1 129 523**	**107 260**

United Nations Relief and Works Agency for Palestine Refugees in the Near East Notes to the 2014 financial statements

Note 1
Mission statement

The mission of UNRWA is to help Palestine refugees achieve their full potential in human development under the difficult circumstances in which they live. The Agency fulfils this mission by providing a variety of essential services within the framework of international standards, to Palestine refugees in the Gaza Strip, the West Bank, Jordan, Lebanon and the Syrian Arab Republic. Among United Nations agencies, UNRWA is unique in terms of delivering services directly to refugees, and is similar in nature to a public service organization.

Note 2
Summary of significant accounting policies

(a) Basis of presentation

2.1 The financial statements have been prepared on the accrual basis of accounting, in accordance with the requirements of IPSAS. Where IPSAS are silent concerning any specific matter, the appropriate International Financial Reporting Standard or International Accounting Standard is applied.

2.2 There are currently no standards issued by the IPSAS Board awaiting implementation that would be likely to affect the financial statements of UNRWA.

(b) Accounting convention

2.3 The financial statements have been prepared using the historical cost convention, except for some financial instruments that are carried at fair value, and donated inventory or property, plant and equipment which are valued at fair value.

(c) Functional currency and translation of foreign currencies

Functional and presentation currency

2.4 The financial statements are presented in United States dollars, and all values are rounded to the nearest thousand. The functional currency of the Agency (including all fund groups) is the United States dollar, with the exception of the Microfinance Department, which uses the Syrian pound as the functional currency in the Syrian Arab Republic and the Jordanian dinar as the functional currency in the West Bank and Jordan.

Transactions and balances

2.5 Foreign currency transactions are translated into United States dollars using the United Nations operational rates of exchange, which approximate the exchange rates prevailing at the dates of the transactions. The United Nations operational rates of exchange are set once a month and are revised mid-month if there are significant exchange rate fluctuations relating to individual currencies.

2.6 Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the year-end closing rate of the United Nations operational rates of exchange.

2.7 Both realized and unrealized foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation, at year-end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of financial performance.

Management of currency risks

2.8 The primary principle of the currency risk management policy of UNRWA is the preservation of the value of its financial resources in United States dollar terms. The Agency's currency risk can be identified mainly as a potential loss in the value of non-received non-United States dollar contributions and non-United States dollar cash assets as a result of a strengthening United States dollar. The risk arises from the date on which the contributions are pledged. To protect its assets and cash flow against adverse currency movements, UNRWA adopts a conservative risk management approach (e.g. hedging) to minimize its exposure to exchange rate fluctuations. To hedge the currency risk, UNRWA entered into several forward contracts in 2014 for expected non-United States dollar contributions in 2015 (see note 10).

2.9 Such hedges are consistent with the Agency's risk management objective and strategy, given that they remove the risk of an appreciation of the United States dollar and provide a fixed known income amount. The gain or loss from hedging will be offset by the foreign exchange gain or loss from donor contributions.

2.10 The Agency provides protection against local currencies (currency adjustment factor) to its area staff for their salaries. Its currency risk management policies allow hedging against local currencies to reduce exposure arising from fluctuations in exchange rates between the United States dollar and local currencies. At the end of the year, there were several outstanding hedging instruments for local currencies (see note 10).

(d) Materiality and use of judgement and estimates

2.11 Materiality is central to the Agency's financial statements. The Agency's accounting materiality framework provides a systematic method for identifying, analysing, evaluating, endorsing and periodically reviewing materiality decisions that affect a number of accounting areas.

2.12 The financial statements necessarily include amounts based on judgements, estimates and assumptions by management. Changes in estimates are reflected in the period during which they become known.

(e) Significant accounting policies

Cash and cash equivalents

2.13 Cash and cash equivalents include cash on hand, cash at banks and other short-term highly liquid investments with original maturities of three months or less.

Revenue

2.14 Revenue is recognized in the statement of financial performance when an increase in future economic benefits relating to an increase in an asset or a decrease in a liability has arisen from a mutually agreed interaction between two parties and can be measured reliably.

(a) Revenue from non-exchange transactions

Contributions are recognized in accordance with IPSAS 23: Income from non-exchange transactions. For unconditional contributions, revenue recognition occurs when the contributions are confirmed in writing by donors. However, if conditions requiring specific performance and the return of unexpended balances exist, then revenue is recognized upon provision of the goods and services. When projects come to an end, and in the event that some contributions are not fully expended on the project for which they were given, then at that point in time, and in accordance with the donor agreement, the amounts that will not be expended will be recognized as amounts to be refunded to donors and included in the statement of financial position and, as other income (expense), in the statement of financial performance. Contributions received from donors in advance are recorded as other liabilities in the statement of financial position until the criteria for recording revenue are met. Notes 20 and 21 provide further details of cash contributions revenue and in-kind contributions revenue, which are recognized in accordance with this policy.

(b) Revenue from exchange transactions

Revenue from exchange transactions is recognized in accordance with IPSAS 9 when the amount of revenue can be measured reliably, it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, the stage of completion of the transaction at the reporting date can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Notes 22 to 26 give further details of revenue earned from exchange transactions which is brought to account in accordance with this policy. This includes revenue from interest on loans and interest on bank deposits, gains and recoveries, as well as revenue from miscellaneous sources.

Contributions receivable

2.15 Contributions and contributions receivable are presented net of allowances for estimated reductions in contribution revenue and doubtful accounts.

2.16 In-kind contributions of services that directly support approved operations and activities, and that have budgetary impact and can be reliably measured, are recognized and valued at fair value. Such contributions include the use of premises, vehicles and personnel.

2.17 Donated inventory or property, plant and equipment are valued at fair value and recognized as assets and revenue.

Accounts receivable

2.18 Receivables are recognized at their nominal value.

2.19 Allowances for doubtful accounts are recognized when there is objective evidence that a receivable is impaired. In particular, an allowance is recognized on the basis of historical collection experience. Impairment losses are recognized in the statement of financial performance.

Loans receivable and allowance for loan losses

2.20.1 *Loans receivable*

Loans receivable represent loans from borrowers under the Agency's microfinance programme and microcredit community support programme which offer targeted credit products through a revolving loan fund that serves its operations in all fields. Loans receivable are recognized at their outstanding principal balance.

2.20.2 *Provision for impairment of loans*

Each quarter, the Agency assesses whether a loan asset or group of loan assets is impaired. A group of loan assets is impaired and impairment losses are incurred only if there is objective evidence that there has been impairment as a result of one or more events ("loss events") occurring after the initial recognition of the asset and that the loss event or events have had an impact on the estimated future cash flows of the loan asset or group of loan assets that can be reliably estimated.

If, during the subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

2.20.3 *Related-party ("insider") loans*

The Agency provides credit facilities to staff, but not to the Executive Director of the Microfinance Department or to members of the Advisory Board. The loan conditions and interest rates for staff-clients are identical to those for other customers. Such loans are provided for consumption and housing.

2.20.4 *Accrued interest on loans*

Interest income on loans financed is accounted for on the accrual basis.

2.20.5 *Recoveries*

Any recoveries of previously written-off loans are reflected in the statement of financial performance for the period during which they are received.

Financial instruments

2.21 The Agency has applied the following IPSAS, which have been issued and are effective from 1 January 2013: IPSAS 28, Financial instruments: presentation; IPSAS 29, Financial instruments: recognition and measurement; and IPSAS 30, Financial instruments: disclosures. They establish the principles for recognizing and measuring financial assets and financial liabilities, presenting financial instruments as liabilities or net assets/equity, offsetting financial assets and financial liabilities, and requirements for disclosure.

2.22 Financial instruments are recognized when UNRWA becomes a party to the contractual provisions of the instrument until such time as the rights to receive cash flows from those assets have expired or have been transferred and UNRWA has transferred substantially all of the risks and rewards of ownership.

2.23 Loans, receivables and payables are non-derivative financial instruments with fixed or determinable payments that are not quoted in active markets. These financial instruments comprise contributions receivable in cash, loans receivable as part of the credit facilities of the Microfinance Department, other receivables, cash in bank accounts and accounts payable. All non-derivative financial instruments are recognized in the statement of financial position at their fair values. The nominal value of receivables and payables approximates the fair value of the transaction.

2.24 The Agency uses derivative financial instruments to hedge exchange risk. Foreign exchange forward contracts are revalued and the revaluation gain or loss is reported in the statement of financial performance if the contracts belong to the current year. For contracts relating to subsequent years, the revaluation gain or loss is reported in the statement of financial position. For revaluation at year-end, the market rate for the forward contract is obtained from the banks and these are compared against the forward rates to ascertain the gain or loss.

Financial risk management

2.25 The activities carried out by UNRWA expose it to various financial risks, primarily the effects of changes in foreign currency exchange rates. Consequently, the Agency's financial risk management policies are focused on the unpredictability of foreign exchange rates and are aimed at minimizing, where feasible, potential adverse effects on the financial performance of UNRWA. Financial risk management is carried out by a central treasury function using UNRWA technical guidelines covering such areas of financial risk as foreign exchange, the use of derivative financial instruments and the investment of excess liquidity.

Advances and prepayments

2.26 Advances and prepayments are recognized at their nominal value.

Inventories

2.27 Inventories are stated at the lower of cost or current replacement cost. The cost of inventories includes purchase cost, or fair value if donated in kind, and all other costs incurred in bringing the inventory into custody. Cost is determined using a weighted average cost formula.

2.28 Current replacement cost, which is used so that inventories can be distributed to beneficiaries at no or nominal charge, is the cost that the Agency would incur to acquire the asset on the reporting date.

2.29 From 2014, shelter work in progress is recognized as inventory and such inventories expensed in the period in which the shelter is handed over to the refugees. Adjustment to inventory was made during the year to reflect this policy change, however, the statement of financial performance (prior year) was not adjusted due to an inability to determine how much of the shelter work in progress should have been capitalized.

2.30 A charge for impairment is recorded in the statement of financial performance for the year in which the inventory is determined to be impaired.

Property, plant and equipment

2.31 Property, plant and equipment items are stated at historical cost, less accumulated depreciation and any recognized impairment loss. For donated assets, fair value as at the date of acquisition is utilized as a proxy for historical cost. For property acquired before 1 January 2010, items were recognized at fair value as at that date and depreciated using the straight-line method over their estimated remaining useful lives.

2.32 Property, plant and equipment are capitalized in the financial statements if their cost exceeds a nominal value.

2.33 Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to the Agency and the cost of the item can be measured reliably. All repairs and maintenance are charged to the statement of financial performance for the financial period during which they are incurred.

2.34 Depreciation is charged so as to allocate the cost of assets over their estimated useful lives using the straight-line method. The depreciation rates are as follows and are subject to annual review (property acquired before 2010 is not subject to the rates below):

(Percentage)

Asset type	*Depreciation rate*
Buildings and land improvements	
Buildings and land improvements	4
Prefabricated buildings	10
Short-life land improvements	14
Leasehold improvement	20
Vehicles	
Heavy trucks	5
Sedans, light buses and light trucks or buses	10
Other vehicles	14
Equipment	
Long-life information and communications technology (ICT) equipment, medical equipment and technical vocational training equipment	14
General machinery and equipment, office equipment, medium-life ICT equipment and teaching and school equipment	20
Short-life ICT equipment, computers and printers	33
Microfinance Department office equipment	10
Furniture and fixtures	
Fixtures	14
Furniture	10-20

Capital work in progress

2.35 All capital expenses incurred on construction are accumulated in a separate account within property, plant and equipment. Upon the completion of construction, the accumulated cost is transferred to a property, plant and equipment account and depreciated on the basis of the aforementioned rates as at the date on which the completed asset is placed in service.

Intangible assets

2.36 Intangible assets are carried at historical cost, less accumulated amortization and any recognized impairment loss. For donated intangible assets, fair value as at the date of acquisition is used as a proxy for historical cost. Intangible assets are capitalized in the financial statements if their cost exceeds a nominal value.

2.37 Amortization is provided on a straight-line basis on all intangible assets of finite life, at rates that will allocate the cost or value of the assets to their estimated residual values. The estimated useful lives of major classes of intangible assets are as follows and are subject to annual review:

Asset class	*Useful life (years)*
Software acquired externally	3
Software internally developed	6
Licences and rights	2
Copyrights	3

2.38 Intangible asset recognition requires the meeting of strict criteria with regard to being identifiable, being under the Agency's control and contributing future economic benefits or service potential that can be reliably measured. Remaining useful life is also a consideration. Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is expensed as incurred.

Software acquisition and development

2.39 Acquired computer software licences are capitalized on the basis of costs incurred to acquire the specific software and bring it into use. Costs directly associated with the development of software for use by the Agency are capitalized as an intangible asset. Development activities include a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if the development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and UNRWA intends to and has sufficient resources to complete development and to use the asset. The expenditure capitalized includes the costs of materials and direct labour, overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in the statement of financial performance as incurred: capitalized development expenditure is measured at cost, less accumulated amortization and accumulated impairment losses.

Impairment

2.40 Assets that are subject to depreciation or amortization are reviewed annually for impairment to ensure that the carrying amount is still considered to be recoverable. Impairment occurs through complete loss, major damage or obsolescence. In the case of a complete loss, full impairment is recorded. This impairment loss can be reversed in subsequent periods, subject to a maximum of the impairment loss recognized.

Operating leases

2.41 Leases where the lessor retains a significant portion of the risks and rewards inherent to ownership are classified as operating leases. Payments due under operating leases are charged to the statement of financial performance as an expense.

Payables and accruals

2.42 Payables and accruals represent present obligations of the Agency arising from past events.

Employee benefits

2.43 The Agency recognizes the following categories of employee benefits:

- Short-term employee benefits that fall due wholly within 12 months after the end of the accounting period during which employees render the related service;
- Post-employment benefits;
- Other long-term employee benefits;
- Termination benefits.

2.44 The Agency is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies. All international staff members participate in the Fund.

2.45 The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the United Nations Joint Staff Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. Neither the Fund nor UNRWA, nor any other organization participating in the Fund, is in a position to identify its respective proportionate share of the defined benefit obligation, plan assets and costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNRWA has treated this plan as if it were a defined contribution plan in accordance with the requirements set out in IPSAS 25: Employee benefits. The Agency's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

2.46 All area staff members participate in the Area Staff Provident Fund, which is accounted for as a defined contribution retirement plan in accordance with IPSAS 25.

Provisions and contingent liabilities

2.47 Provisions are made for future liabilities and charges where UNRWA has a present legal or constructive obligation as a result of past events, it is probable that it will be required to settle the obligation, and the amount can be reasonably estimated.

2.48 Other material commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of UNRWA.

Interest revenue

2.49 Interest revenue is recognized over the period during which it is earned. The amount of interest on bank deposits is $0.453 million.

Programme support cost recovery

2.50 The Agency is entitled to a specific percentage of the expenditure incurred on certain projects according to agreements with donors. Programme support cost recoveries are recognized as income and represent recoveries of overhead costs incurred by the Agency to implement the related projects. The amount of programme support cost recovery is $0.098 million.

Fund accounting and segment reporting

2.51 A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective. Funds are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial statements are prepared on a fund accounting basis, showing at the end of the period the aggregated position of all UNRWA funds. Fund balances represent the accumulated residual of revenue and expenses.

2.52 A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. UNRWA classifies all projects, operations and fund activities into four segments:

- Unearmarked activities;
- Earmarked activities, which include:
  - Restricted activities: a series of recurring activities aimed at bringing about clearly specified objectives within a defined time period and a

defined budget. This applies to activities related to both cash and in-kind contributions;

- Emergency appeals: activities under an external funding request to respond to a rapid crisis or a protracted humanitarian crisis with emergency operations;
- Projects: used to meet capital expenditure or development needs to improve or supplement existing programmes and systems;
- Microfinance: used to provide credit for enterprise activities, household consumption and housing needs that will improve the quality of life of householders and small-business owners and will help sustain jobs, reduce poverty, empower women and provide income-generating opportunities for Palestine refugees.

Budget comparison

2.53 The budget for the biennium 2014-2015 was submitted to the General Assembly. After consideration by the Assembly, the allocation and the appropriations were carried out by exercising the delegated authority.

2.54 The biennial budget is prepared on the modified cash basis and the statement of financial performance is prepared on the accrual basis. Owing to the different bases used for the preparation of budgets and financial statements, statement V, which provides a comparison of budget and actual amounts, is prepared on the same basis of accounting, classification and period as the approved budget, as required under IPSAS 24: Presentation of budget information in financial statements.

2.55 The comparison statement includes the original and final budget amounts, the actual amounts on the same basis as the corresponding budgetary amounts and an explanation of material differences between the budget and actual amounts.

2.56 Note 34 provides a reconciliation of actual amounts presented on the same basis as the budget with the actual amounts of net cash flows from operating activities, investing activities and financing activities presented in the financial statements, identifying separately any basis, timing and entity differences.

Note 3

Amendments to the presentation of the 2013 financial statements

3.1 A new accounting procedure was implemented in 2014 to ensure accurate recording of non-Agency assets as required by IPSAS.

3.2 The Agency provides shelters and non-Agency installations to beneficiaries and other parties free of charge. During the construction period, UNRWA effectively owns the structure, taking responsibility for it until such time as it is handed over to the beneficiary or other parties. At handover, the title is given to the beneficiary or other parties and, accordingly, UNRWA has no further responsibility for the structure, with retroactive effect. The accounting entries were effected in 2014; however, to achieve comparability, the presentation of the 2013 financial statement was amended to effect the changes indicated below, relating to an increase in inventory and net equity in the amount of $44.4 million.

(Thousands of United States dollars)

	2013 audited statement	*Adjustment*	*2013 amended*
Statement I: financial position			
Inventory	47 633	44 373	92 006
Accumulated surplus/deficit	215 741	44 373	260 114
Statement III: changes in net assets/equity			
Accumulated surplus/deficit unearmarked opening balance	(68 594)	15 592	(53 002)
Accumulated surplus/deficit earmarked opening balance	284 335	28 781	313 116

Note 4
Cash and cash equivalents

4.1 Cash is held principally in United States dollar bank accounts. The composition of cash is as follows:

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Cash in hand	17 446	15 122
Cash at banks	288 008	263 273
Total	**305 454**	**278 395**

4.2 The Agency held funds for other United Nations entities in the amount of $1.557 million as at 31 December 2014 and $2.712 million as at 31 December 2013.

4.3 The balances of cash and cash equivalents on hand as at 31 December 2014 were held in the currencies shown below. Currency values have been converted at the United Nations official rates of exchange as at 1 January 2015.

	Balance as at 31 December 2014			*Balance as at 31 December 2013*		
Currency	*Currency amount (thousands)*	*United Nations official rate of exchange*	*United States dollar amount (thousands)*	*Amount*	*United Nations official rate of exchange*	*United States dollar amount (thousands)*
Australian dollar	0.02	1.228	0.016	0.14	1.122	0.12
Canadian dollar	173	1.163	149	209	1.067	196
Swiss franc	435	0.987	440	118	0.887	133
Danish krone	19 001	6.105	3 112	275	5.406	51
Egyptian pound	91	7.153	13	56	6.942	8
Euro	8 198	0.82	9 998	26 699	0.725	36 827
Pound sterling	714	0.644	1 109	126	0.605	209
Jordanian dinar	3 749	0.708	5 296	3 765	0.708	5 318
Yen	632 953	120.67	5 245	630 145	104.93	6 005
Lebanese pound	4 181 617	1 513	2 764	3 160 335	1 506	2 098

	Balance as at 31 December 2014			*Balance as at 31 December 2013*		
Currency	*Currency amount (thousands)*	*United Nations official rate of exchange*	*United States dollar amount (thousands)*	*Amount*	*United Nations official rate of exchange*	*United States dollar amount (thousands)*
New Israeli sheqel	12 687	3.913	3 242	8 976	3.486	2 575
Norwegian krone	846	7.437	114	94	6.117	16
Swedish krona	595	7.852	76	428	6.488	66
Syrian pound	63 414	196.04	323	236 165	143.57	1 645
United States dollar	256 128	1	256 128	208 126	1.000	208 126
Cash at banks			288 008			263 273
Cash on hand			17 446			15 122
Total			**305 454**			**278 395**

Note 5
Loans receivable

5.1 Loans receivable include loans outstanding from funds disbursed from the Microfinance Department and the microcredit community support programme both through an initial donor contribution (first-time loans) and from revolving loan funds. The Microfinance Department operates as a separate department within UNRWA. The microcredit community support programme is a subprogramme of the Social Services Division of the Relief and Social Services Department of UNRWA.

5.2 The composition of loans receivable, net of allowance for bad debts by maturity, is as follows:

(Thousands of United States dollars)

	31 December 2014			*31 December 2013*		
	Microfinance Department	*Microcredit community support programme*	*Total*	*Microfinance Department*	*Microcredit community support programme*	*Total*
Current	19 820	1 358	21 178	17 282	1 400	18 682
Non-current	1 547	1 047	2 594	1 490	905	2 395
Total	**21 367**	**2 405**	**23 772**	**18 772**	**2 305**	**21 077**

Provision for loans receivable

5.3 The change in the allowance for doubtful loans receivable is as follows:

(Thousands of United States dollars)

	2014			2013		
	Microfinance Department	*Microcredit community support programme*	*Total*	*Microfinance Department*	*Microcredit community support programme*	*Total*
Beginning balance	(1 339)	(20)	(1 359)	(2 539)	(18)	(2 557)
Additions	(1 048)	(53)	(1 101)	(853)	(3)	(856)
Less: write-offs	860	–	860	2 053	1	2 054
Ending balance	**(1 527)**	**(73)**	**(1 600)**	**(1 339)**	**(20)**	**(1 359)**

Allowance for loan losses

5.4 For the microcredit community support programme, the provision for doubtful loans is equal to 3 per cent of the outstanding amount of the loan portfolio excluding loans to UNRWA staff, for which no provision is made.

5.5 For the Microfinance Department, the provision for doubtful loans is based on an "aged portfolio at-risk report", which is applied to the total amount outstanding of each loan. On the basis of empirical experience, historical record and market knowledge, it was determined that the following general provision is required for delinquent and defaulting Microfinance Department loans:

Loan status	*Allowance*
Current	1% general provision
1-30 days overdue	5% general provision
31-60 days overdue	10% general provision
61-90 days overdue	25% general provision
91-120 days overdue	50% general provision
121-180 days overdue	75% general provision
181-360 days overdue	100% general provision

5.6 Effective as from September 2012, a special impairment on outstanding Microfinance Department loans was adopted in the Syrian Arab Republic to mitigate the risk posed by the situation of armed conflict. The rates of reserve calculation for the special impairment at year-end 2013 and 2014 are as follows:

Loan status	*Allowance*
1-30 days overdue	95% special impairment
31-60 days overdue	90% special impairment
61-90 days overdue	75% special impairment
91-120 days overdue	50% special impairment
121-180 days overdue	25% special impairment
181-360 days overdue	0% special impairment

5.7 Based upon the above percentages, if a loan is not serviced, an increasing reserve should be provided for. This provision will be shown in the statement of financial performance for the period. On a monthly basis, an adjustment is made to reflect the changes in the general provision. When a loan is in arrears for 360 days or more, there exists objective evidence of an impairment loss and the loan has been fully provisioned in the general provision, it will be written off. Criteria used to determine that there is objective evidence of an impairment loss may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; default or delinquency in payments of interest or principal; breach of loan covenants or conditions; deterioration in the value of collateral; the probability exists that they will enter bankruptcy or other financial reorganization; and observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Recovery of written-off loans will continue to be pursued through the collection and compliance section of the Department.

Note 6
Contributions receivable

6.1 Contributions receivable represents confirmed and binding pledges outstanding from donors that are due within 12 months. The following is a breakdown of contributions receivable balances by donor category at the end of the year:

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Due from Governments	25 631	7 649
Due from intergovernmental organizations	11 318	14 564
Due from non-governmental organizations	1 030	1 932
Due from United Nations organizations	1 240	–
Provision against contributions receivable	(1 031)	(550)
Total contributions receivable	**38 188**	**23 595**

6.2 There are no non-current receivables due after 12 months from 31 December 2014.

6.3 Contributions receivable relate to donor contributions for each of the five identified segments. Donor contributions may include restrictions that require UNRWA to use the contribution for a specific project, activity or country within a specified time period.

6.4 Contributions receivable are shown net of allowances for estimated reductions in contribution revenue and doubtful accounts.

6.5 The change in the allowance for doubtful contributions receivable is as follows:

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Beginning balance	550	2 092
Reduction in provision	(310)	(1 403)
Addition during the period	791	119
Less: write-offs	–	(258)
Ending balance	**1 031**	**550**

6.6 The allowance for doubtful contributions receivable is estimated at the following percentages of outstanding contributions receivable:

(Percentage)

Governments	Less than 2 years	0
	From 2 years to less than 3 years	50
	3 years or more	100

6.7 After six years, the doubtful debt and the write-off request, together with the supporting documents, should be submitted to the Director of Finance for approval after all collection efforts have been exhausted.

Note 7
Accounts receivable

7.1 Accounts receivable are due to be collected within 12 months and comprise the following:

(Thousands of United States dollars)

	Reference	*31 December 2014*	*31 December 2013*
Value-added tax receivable	Note 7.1.1	100 120	93 137
Other accounts receivable	Note 7.1.2	7 453	6 726
Less provisions	Note 7.1.3	(64 966)	(47 694)
Accounts receivable net of provisions		**42 607**	**52 169**

Value-added tax receivable

7.1.1 Value-added tax receivable represents amounts receivable from Governments for value-added tax paid by the Agency that is subject to reimbursement. The composition of value-added tax receivable is as follows:

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Value-added tax receivable from the Palestinian Authority	96 765	91 063
Value-added tax receivable from the Government of Israel	1 582	1 110
Value-added tax receivable from the Government of Lebanon	1 773	964
Total	**100 120**	**93 137**

Other accounts receivable

7.1.2 Other accounts receivable comprise the following:

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
From Governments	–	207
Miscellaneous receivable	3 435	3 066
Personal accounts of staff members	3 830	3 296
Refundable utility deposits	188	157
Total	**7 453**	**6 726**

7.1.3 *Provisions*

(Thousands of United States dollars)

	31 December 2014			*31 December 2013*		
	Value-added tax	*Accounts receivable*	*Total*	*Value-added tax*	*Accounts receivable*	*Total*
Beginning balance	(46 686)	(1 008)	(47 694)	(34 914)	(1 235)	(36 149)
Additions	(17 477)	59	(17 418)	(11 772)	(201)	(11 973)
Less: write-offs	–	146	146	–	428	428
Ending balance	**(64 163)**	**(803)**	**(64 966)**	**(46 686)**	**(1 008)**	**(47 694)**

7.2 The provisions for value-added tax receivable and accounts receivable are estimated amounts based on the aged analysis of the outstanding amounts as at the reporting date. These provisions have been calculated on the basis of past experience and the likelihood of collecting the outstanding amounts over the specific periods, as shown below.

(Percentage)

Value-added tax receivable	Less than 2 years	0
	From 2 years to less than 3 years	50
	3 years or more	100
Other receivable	1 year or more	100

7.3 After six years for value-added tax receivable and three years for other receivables, the doubtful debt and the write-off request, together with the supporting documents, may be submitted to the Director of Finance for approval after all collection efforts have been exhausted. In some instances, collection efforts continue after the time periods specified above have elapsed.

7.4 The 2014 additions for accounts receivable provisions in note 7.1.3 reflect a net decrease of $0.059 million due to provisions receipts during the period of $0.079 million and provisions adjustments of $0.012 million against period additions of $0.032 million.

Note 8
Other assets

8.1 Included in other assets are prepaid expenses and advances to suppliers. Prepaid expenses and advances to suppliers totalled $7.475 million as at 31 December 2014 and $7.760 million as at 31 December 2013. Included therein are prepayments to staff in the amount of $0.159 million as at 31 December 2014 and $0.099 million as at 31 December 2013.

8.2 The composition of prepaid expenses and advances to suppliers as at 31 December 2014 is shown below. The full amount of non-current assets represents advances to suppliers.

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Current		
Advances to supplier	7 082	7 336
Prepayment to staff	159	99
Non-current		
Advances to supplier	234	325
Total	**7 475**	**7 760**

Note 9
Inventories

9.1 Inventories consist of the following:

(Thousands of United States dollars)

Type	*31 December 2014*	*31 December 2013 (restated)*
Warehouse	33 816	28 071
Pharmacy/clinic	5 302	3 838
In transit	3 680	15 482
Production unit	269	241
Shelter under construction	34 916	39 672
Non-Agency installations	7 581	4 702
Total	**85 564**	**92 006**

9.2 Warehouse inventory comprises four main categories of items that are distributed to refugees or used to provide services to refugees: medical supplies, general supplies, food and motor transport.

9.3 Pharmacy/clinic inventory represents medical supplies distributed from the warehouse and held in the respective pharmacies and clinics for the five fields.

9.4 Production unit inventory relates to the Agency's self-supporting production unit, which is the embroidery centre located in the Gaza Strip. This unit is governed by separate instructions for effective management control and performance assessment. Inventories of the production unit are reported at cost, under assets in the financial statements.

9.5 The components of the production unit inventory are as follows:

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Raw materials inventory — embroidery	70	73
Work in progress — embroidery	2	9
Finished goods — embroidery	197	159
Total	**269**	**241**

9.6 Impairment expense for inventory in the amount of $0.456 million was recorded in 2014 and in the amount of $0.122 million in 2013.

Note 10
Derivative financial instruments

Nature of financial instruments

10.1 Details of the significant accounting policies and methods adopted, including the criteria for recognition and de-recognition, the basis of measurement and the basis on which gains and losses are recognized in respect of each class of financial asset and financial liability, are set out in note 2.

10.2 The financial instruments of UNRWA comprise contributions receivable in cash, loans receivable as part of the Microfinance Department credit facilities, other receivables, cash in bank accounts, financial derivative forward contracts and accounts payable.

Financial derivatives

10.3.1 All opening outstanding financial derivative forward contracts were revalued as at 31 December 2014: the impact on financial position and on financial performance is summarized below.

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Realized gain	7 698	–
Realized (loss)	(3 799)	(36)
Total realized gain/(loss)	**3 899**	**(36)**
Unrealized gain (asset)	4 877	–
Unrealized loss (liability)	6 755	82

10.3.2 All outstanding contracts as at 31 December 2013 matured during 2014. UNRWA entered into several forward contracts during 2014, some of which matured in the same year. The net result of those contracts is a realized gain of $3.899 million, classified as financial derivatives gain under other revenue in the statement of financial performance.

10.3.3 The Agency entered into various forward contracts in 2014. The outstanding contracts as at 31 December 2014 are revalued using the market rate. Contracts which resulted in revaluation loss of $6.755 million are disclosed as derivative financial liabilities under current liabilities in the statement of financial position.

10.3.4 Revaluation of a few outstanding contracts resulted in a revaluation gain of $4.877 million. The result is disclosed as derivative financial assets under current assets in the statement of financial position.

Credit risk

10.4 The Agency has limited credit risk because its donors are generally of a high credit standing. Contributions receivable comprise primarily amounts due from sovereign nations. Details of contributions receivable, including allowances for reductions in contribution revenue, are provided in note 6.

10.5 The greatest area of credit risk arises from loans provided by the Microfinance Department. The Department manages credit risk by:

- Establishing ceilings on amounts of direct credit for each product linked to the cash flow of each client;
- Providing a range of products to different sectors and segments to spread credit and reduce concentration;

- Formulating credit policies by product covering collateral requirements and credit compliance with regulatory requirements in each jurisdiction;
- Establishing the authorization structure for the approval and renewal of credit facilities;
- Reviewing and assessing credit risk in excess of designated limits prior to facilities being committed to customers. Renewals of facilities are subject to the same process;
- Developing and maintaining a risk-grading system in order to categorize exposure according to when impairment provisions are required against specific credit exposures;
- Providing guidance and training to improve skills of staff in order to promote best practice in the management of credit risk.

10.6 In 2014, the credit risk in the Syrian Arab Republic and the Gaza Strip continued to increase as a result of conflict. The Microfinance Department manages this risk by increasing provisions as the portfolio at risk increases as a percentage of the full portfolio.

10.7 The Agency has its cash deposited with various banks and is therefore exposed to the risk that a bank will default in its obligation towards it. However, UNRWA holds all significant cash deposits in international banks with a high credit rating.

10.8 There is no perceived risk that other receivables may not be liquidated when they fall due.

Interest rate risk

10.9 The Agency deposits its funds in short-term fixed interest accounts and therefore has no significant interest rate risk exposure.

Foreign currency risk

10.10 The Agency receives contributions from donors in currencies other than the primary currency of the expenditures, United States dollars. In 2014, 32 per cent of contributions to the General Fund were denominated in the United States dollar base currency and 68 per cent were denominated in other currencies. The Microfinance Department lends in different currencies in each of the Agency's fields of operation, with the United States dollar used in the Gaza Strip, the Jordanian dinar used in Jordan and the West Bank, and the Syrian pound used in the Syrian Arab Republic.

10.11 Furthermore, some field office expenditures are incurred in non-United States dollar currencies. UNRWA is therefore exposed to foreign currency exchange risk arising from fluctuations of currency exchange rates. Foreign exchange forward contracts are used to hedge the non-United States dollar exchange exposure for donor contributions.

10.12 To protect its assets and cash flow against adverse currency movements, UNRWA adopts a conservative risk management approach, hedging to minimize its exposure to exchange rate fluctuations. In order to hedge the currency risk, UNRWA enters into forward contracts to remove the risk of an appreciation of the United States dollar and to provide a known, fixed income amount. UNRWA also enters into forward contracts to hedge the risk of fluctuation in currency adjustment factor expense for area staff in the West Bank and the Gaza Strip.

10.13 As at 31 December 2014, 89 per cent of cash held in banks was denominated in the United States dollar base currency, 4 per cent was denominated in local currencies used by the UNRWA field offices to support operating activities, and the remaining cash at banks was held in other currencies. A full breakdown of cash held at banks in currencies other than the United States dollar is provided in note 4.

Note 11
Property, plant and equipment

1.1.1 The table below presents a summary of property, plant and equipment as at 31 December 2014.

Thousands of United States dollars)

	2014									2013
Description	*Land*	*Buildings*	*Leasehold improvements*	*Furniture and fittings*	*Office and computer equipment*	*Motor vehicles*	*Construction in progress*	*Assets not placed in service*	*Total*	*Total*
Cost										
As at 1 January	16 250	447 982	567	1 555	33 390	34 494	17 111	2 231	553 580	522 606
+ Additions in year	–	14 390	16	601	2 697	4 193	9 854	855	32 605	37 069
(-) Disposals/adjustments in year[a]	–	1 821	–	29	667	473	–	–	2 989	3 592
Balance as at 31 December (A)	**16 250**	**460 550**	**583**	**2 126**	**35 420**	**38 215**	**26 964**	**3 086**	**583 195**	**556 083**
Depreciation and impairment										
Balance as at 1 January	–	67 726	374	369	23 046	20 851	–	–	112 366	84 986
Depreciation in year	–	18 244	54	262	3 707	2 238	–	–	24 507	24 022
(-) Depreciation on disposals/adjustments in year[a]	–	560	–	28	529	455	–	–	1 573	594
Impairment in year	–	(2 089)	–	–	–	–	–	–	(2 089)	4 748
Balance as at 31 December (B)	**–**	**83 321**	**430**	**603**	**26 224**	**22 633**	**–**	**–**	**133 210**	**113 162**
Net book value as at 31 December (A minus B)	**16 250**	**377 230**	**153**	**1 524**	**9 196**	**15 582**	**26 964**	**3 086**	**449 985**	**442 921**

[a] See note 11.1.2.

11.1.2 Net disposals and adjustments comprise the following:

(Thousands of United States dollars)

	2014	*2013*
Loss on disposal	1 348	2 350
Sale of assets proceeds	150	140
Adjustments	(81)	509
Net disposal/adjustments as per note 11.1	**1 416**	**2 999**

11.2 In addition to active assets valued at $449.985 million, the Agency continues to utilize fully depreciated assets with a gross carrying value of $0.802 million.

Note 12
Intangible assets

12.1 Intangible assets are summarized as follows:

(Thousands of United States dollars)

	2014				*2013*			
Class	*Beginning balance*	*Additions*	*Disposals*	*End balance*	*Beginning balance*	*Additions*	*Disposals*	*End balance*
Software acquired separately	750	162	(146)	765	528	222	–	750
Software internally developed	16 565	16 092	–	32 657	6 346	10 219	–	16 565
Licences and rights	27	–	(27)	–	–	27	–	27
Total	**17 342**	**16 254**	**(173)**	**33 423**	**6 874**	**10 468**	**–**	**17 342**
Amortization	5	132	(61)	76	–	5	–	5
Total	**17 337**	**16 122**	**(112)**	**33 346**	**6 874**	**10 462**	**–**	**17 337**

12.2 The Agency has applied IPSAS 31 prospectively as from 1 January 2012 and accordingly has recognized intangible assets acquired on or after that date. Except for the software acquired separately by the Microfinance Department, intangible assets acquired prior to that date have not been recognized, owing to the fact that prior to 2012 there were no tracking mechanisms in place to provide a reliable cost determination.

12.3 In 2012, the Agency undertook a significant software development initiative related to a new enterprise resource planning system. This is a multi-year project and represents the total amount of computer software internally developed as shown in the table above.

12.4 The majority of intangible assets are currently under construction.

Note 13
Accounts payable and accruals

13.1 Accounts payable consist of the following:

(Thousands of United States dollars)

	Reference	*31 December 2014*	*31 December 2013*
Supplier accounts payable	Note 13.1.1	36 309	28 993
Accrued salaries and wages		–	3 592
Accrued expenses	Note 13.1.2	32 723	36 137
Other accounts payable	Note 13.1.3	13 524	24 752
Accounts payable, non-current	Note 13.1.4	9 875	9 875
Due to Area Staff Provident Fund	Note 14A.1	3 995	10 576
Total		**96 426**	**113 925**

The composition of accounts payable is as follows:

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Current	86 551	104 050
Non-current	9 875	9 875
Total	**96 426**	**113 925**

Supplier accounts payable

13.1.1 Supplier accounts payable represent outstanding amounts payable to vendors for goods and services received.

Accrued expenses

13.1.2 Accrued expenses include the following:

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Accrued expenses for services and utilities	26 163	30 849
Area staff group medical insurance	1 877	3 544
Accrued salaries, wages and other expenses	930	358
Other salary-related payable	3 615	1 223
Payable — reclassifications of accounts receivable balance staff	138	163
Total	**32 723**	**36 137**

Other accounts payable

13.1.3 Other accounts payable consist of the following:

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Deposits received	186	203
West Bank water supply, Palestinian Authority	104	68
Unpaid cheques	3	1 001
Funds held for other United Nations entities	1 557	2 712
Interest payable for projects	1 370	2 136
Miscellaneous accounts payable	3 495	3 100
Accounts payable — goods in transit	4 850	10 765
Staff liabilities payable	1 738	4 270
Unearned income canteen rent	221	497
Total	**13 524**	**24 752**

Accounts payable, non-current

13.1.4 Accounts payable, non-current consist of the following:

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
OPEC Fund for International Development PalFund Trust Fund — Microfinance Department	9 875	9 875
Total	**9 875**	**9 875**

Note 14
Employee pension fund

14A
UNRWA Area Staff Provident Fund

The UNRWA Area Staff Provident Fund, established under article XIII of the Agency's Financial Regulations, is a retirement benefit plan that applies to all area staff members and vests after six months of service. UNRWA has treated this plan as if it were a defined contribution plan in accordance with the requirements of IPSAS 25. The Agency's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance. The balances outstanding with the Provident Fund as at 31 December 2014 and as at 31 December 2013 are shown below.

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Opening balance	10 576	(464)
Employee contributions	48 265	45 046
Agency contributions	54 087	61 547
Withdrawals	(51 609)	(66 264)
Area Staff Provident Fund employee loans	(23 874)	(24 653)
Area Staff Provident Fund loan commission	107	106
Current account with Provident Fund	(33 557)	(4 742)
Total	**3 995**	**10 576**

14B
United Nations Joint Staff Pension Fund: international staff

14B.1 The Regulations of the United Nations Joint Staff Pension Fund state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

14B.2 The Agency's financial obligation to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly (currently 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the General Assembly invokes the provisions of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. Each member organization shall contribute towards this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

14B.3 The actuarial valuation performed as at 31 December 2013 revealed an actuarial deficit of 0.72 per cent (1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42 per cent of pensionable remuneration, compared to the actual contribution rate of 23.7 per cent. The next actuarial valuation will be conducted as at 31 December 2015.

14B.4 As at 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 per cent (130.0 per cent in the 2011 valuation). The funded ratio was 91.2 per cent (86.2 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

14B.5 After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that, as at 31 December 2013, there was no requirement for deficiency payments under article 26 of the Regulations of the Fund given that the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provisions of article 26.

14B.6 In December 2012 and April 2013, respectively, the General Assembly authorized, for new participants in the Fund, an increase in the normal retirement age and the mandatory age of separation to 65 years, effective from 1 January 2014. The related change to the Pension Fund's Regulations was approved by the Assembly in December 2013. The increase in the normal retirement age is reflected in the actuarial valuation of the Fund as at 31 December 2013.

14B.7 During 2014, the Agency's paid contributions to the Pension Fund amounted to $8.232 million (compared with $7.195 million in 2013). Expected contributions due in 2015 are expected to amount to $8.100 million.

14B.8 The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Pension Fund publishes quarterly reports on its investments, which can be viewed by visiting the Fund's website (www.unjspf.org).

Note 15
Staff end-of-service and termination benefits

15.1 The Agency recognizes the following categories of employee benefits:

- Short-term employee benefits due to be settled within 12 months after the end of the accounting period during which employees render the related service;
- Post-employment benefits;
- Other long-term employee benefits;
- Termination benefits.

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Current	65 481	53 341
Non-current	494 786	473 216
Total	**560 267**	**526 557**

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Annual leave encashment for area staff	32 869	32 113
End-of-service liability for area staff	524 540	491 717
Short-term employee benefits for international staff not funded through the United Nations regular budget	2 371	2 336

	31 December 2014	*31 December 2013*
Long-term employee benefits for international staff not funded through the United Nations regular budget	488	391
Total	**560 268**	**526 557**

Short-term employee benefits for area staff

15.2 Short-term employee benefits consist of the annual leave of area staff. The amount of liability is calculated on the basis of the accumulated leave balances in the human resources module as at 31 December 2014. The total employee annual leave liability as at 31 December 2014 amounted to $32.869 million (compared with $32.113 million as at 31 December 2013.

End-of-service liabilities for area staff

15.3 Area staff end-of-service and termination benefit liabilities are determined by professional actuaries or calculated by UNRWA on the basis of personnel data and past payment experience. As at 31 December 2014, total employee benefits liabilities amounted to $524.540 million (compared with $491.717 million as at 31 December 2013). The end-of-service benefits are fully unfunded. However, UNRWA allocates funding each year equivalent to the cash payout for that particular year.

15.4 In accordance with the requirements set out in IPSAS 25, the actuary has used the projected unit credit actuarial method to assess the plan's liabilities. Under this method, a "projected accrued benefit" is calculated for each benefit that will accrue for all active members of the plan. The projected accrued benefit is based on the plan's accrual formula and on the service period as at the valuation date but using a member's final compensation projected to the age at which it is assumed that the employee will leave active service. The plan liability is the actuarial present value of the projected accrued benefits as at the valuation date for all active employees.

Normal and early retirement benefit

15.5 In the case of normal and early retirement, area staff are paid end-of-service benefits in accordance with rule 109.2 of the UNRWA area staff rules. The criteria and assumptions used in calculating normal and early retirement benefits according to the actuarial method under IPSAS include the following: (a) all area staff employees are eligible, and the normal retirement age is considered to be from 60 to 62 years, plus a minimum service period of three years; (b) at the age of 60, the staff member has the option to extend his or her retirement age to 62; in this context, it is assumed that 25 per cent of the staff opt for immediate retirement upon attaining the age of 60; (c) the amount payable is calculated on the basis of the formula of base salary times 11 per cent times number of completed years of service; (d) the service period is prorated until the last completed month of service; and (e) the base salary is the basic matrix salary without allowances. However, in Jordan, Lebanon and the Syrian Arab Republic, the basic matrix salary is adjusted for the fluctuation of the local currency against the United States dollar. In the West Bank, the basic matrix salary is adjusted for the fluctuation of the Jordanian dinar against the United States dollar.

15.6 The benefit referred to above is payable also in the case of early voluntary retirement. The conditions for early voluntary retirement are as follows: (a) attainment of the age of 50 to 59, with 10 years of service or more; (b) a service period of 25 years or more; (c) attainment of the age of 45 to 49, with a service period of 10 years or more; and (d) 20 to 24 years of service. The aforementioned eligibility criteria for early retirement are listed in descending order and are subject to an annual budget set by the Agency.

Termination in the interests of the Agency

15.7 Area staff are paid end-of-service benefits in accordance with rule 109.9 of the UNRWA area staff rules if the termination is as stipulated in rule 109.1 of the staff rules and is in the interests of the Agency as reflected in the following criteria: (a) the service period must be equal to or greater than one year; (b) the employee is paid under either of the following two schemes, with the benefit amount and the application terms varying by years of qualified service and attained age:

Years of qualifying service	*Months of base salary*
0	0
1	1
2	1
3	2
4	3
5	4
6	5
7	6
8	7
9 or more	8

Age	*Months of base salary*
46	8.25
47	8.50
48	8.75
49	9.00
50	9.25
51	9.50
52	9.75
53	10.00
54	10.25
55	10.50

(c) the benefit is not paid if separation from service is initiated by the employee (e.g. through resignation); (d) the service period is prorated until the last completed month of service; and (e) the base salary is the basic matrix salary without allowances. However, in Jordan and Lebanon, the basic matrix salary is adjusted for the fluctuation of the local currency against the United States dollar. In the West Bank, the basic matrix salary is adjusted for the fluctuation of the Jordanian dinar against the United States dollar.

Death benefits

15.8 Death benefits for area staff are paid in accordance with rule 109.8 of the UNRWA area staff rules. In the event of separation as a result of the death of an area staff member, the Agency shall pay a death benefit to the staff member's nominated beneficiary or beneficiaries. The death benefit shall be computed either: (a) as 11 per cent of the deceased staff member's ending annual salary and cost-of-living allowance (positive or negative) for each year of qualifying service, plus a supplemental benefit representing 50 per cent of ending annual salary and cost-of-living allowance (positive or negative) or (b) as 200 per cent of ending annual salary and cost-of-living allowance (positive or negative), whichever is greater.

Disability benefits

15.9 Area staff are paid in accordance with UNRWA area staff rule 109.7 if terminated on the stated ground that they are, for reasons of health, incapacitated insofar as further service with the Agency. In the event of the disability of a staff member on or after 1 September 1987 and subject to paragraphs 3 to 6 of the above-mentioned rule, a disability benefit is computed either: (a) as 11 per cent of ending annual salary and cost-of-living allowance (positive or negative) for each year of qualifying service or (b) as 200 per cent of ending annual salary and cost-of-living allowance (positive or negative), whichever is greater.

Reconciliation of end-of-service benefits

15.10 The interest costs and service costs incurred during the year have been directly accounted for in the statement of financial performance. The amount of interest costs, service costs and past service costs accounted for is shown in the table below.

15.11 IPSAS 25 allows the actuarial gains and losses that are within the corridor to be recognized outside the statement of financial performance and requires the presentation of the actuarial gains and losses in the statement of changes in net assets/equity. The amount of actuarial (gains) losses presented in the statement of changes in net assets/equity is ($2.269) million.

15.12 Interest costs and service costs amounted to $57.973 million as at 31 December 2014 (compared with $55.666 million for 2013). The actuarial (gains) losses are directly accounted for in the statement of changes in net assets/equity in accordance with IPSAS 25. In the 2014 valuation of end-of-service liabilities, the actuaries determined actuarial gains to be $2.269 million. Accordingly, in the cash flow statement the actuarial gains were added rather than deducted because they were directly accounted for in the statement of changes in net assets/equity.

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Opening balance as at 1 January	491 717	463 016
Interest costs for the year	23 163	21 981
Service costs for the year	34 810	33 685
Past service costs[a]	(8 949)	–
Payments in the year	(13 932)	(27 104)
Actuarial (gains)/losses	(2 269)	139
Total	**524 540**	**491 717**

[a] Benefit enhancement due to the extension of age of retirement for area staff on an optional basis from 60 to 62 years, effective 1 January 2014.

Key assumptions

15.13 The discount rate used was based on the currency and the term of the underlying liabilities. Where the benefit offered by the Agency provided protection for the fluctuation of the local currency against the United States dollar, the benefit was assumed to be in United States dollars and the applicable United States dollar discount rate was used. This has been the case for the Lebanon, West Bank and Jordan field offices and the Amman headquarters.

15.14 The discount rates and future escalation used, by location and currency, are as follows:

(Percentage)

Location	*Currency*	*Currency protection*	*Discount rate*	*Future escalation*
Gaza	United States dollar	No	4.75	2.50
Gaza headquarters	United States dollar	No	4.75	2.50
Jordan	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	4.75	2.50
Amman headquarters	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	4.75	2.50
West Bank	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	4.75	2.50
Lebanon	Lebanese pound	Yes (Lebanese pound/United States dollar)	4.75	2.50
Syrian Arab Republic	United States dollar	No	4.75	2.50

15.15 The discount rates were set with reference to government bonds, high-quality corporate bonds and other instruments, depending on the currency, term and availability of such instruments for the currency under consideration.

Step increments

15.16 According to the current salary matrices of the Agency, step increments can be either an amount or a percentage. Subject to satisfactory performance, step increments are applied once a year for each employee until the employee reaches the maximum step level, which currently stands at 24.

Exchange rates as at 31 December 2014

15.17 The exchange rates used to convert local currencies to the United States dollar are based on the United Nations exchange rates, as follows: United States dollar, 1.000; Jordanian dinar, 0.708; Lebanese pound, 1 513.000; Syrian pound, 196.0400.

Resignation rates

15.18 It is assumed that plan members will resign at the following rates per annum, according to attained age: less than 30 years, 3 per cent; for 30 to 34 years, 2 per cent; for 35 to 39 years, 1.5 per cent; and for 40 years and above, 0 per cent.

Early retirement rates

15.19 It is assumed that plan members will elect for early retirement according to the rates set out below.

(Percentage)

	Number of years since early retirement conditions have been satisfied			
Attained age	*0*	*1*	*2*	*3+*
Less than 45	8.0	5.0	3.0	1.0
45-49	8.0	5.0	3.0	1.0
50-54	8.0	5.0	3.0	1.0
55-59	8.0	5.0	3.0	1.0

15.20 For the field of Jordan and the Amman headquarters, the assumed early retirement rates set out above were multiplied by 150 per cent.

Mortality

15.21 It is assumed that active members of the plan will experience in-service mortality in accordance with the 1996 United States Annuity 2000 mortality table for males and females.

Disability

15.22 It is assumed that disability cases will occur annually according to the probabilities set out below.

Disability rate (per thousand)

Age	*Male*	*Female*
Less than 45	0.50	0.75
45-54	1.00	1.50
55-62	1.50	2.25

International staff end-of-service liability

15.23 The separation costs of international staff funded from the regular budget of the United Nations (150 posts as at 31 December 2014 and 146 posts as at 31 December 2013) are borne by the regular budget, and no provision for these costs is made in the Agency's financial statements given that the liability will be borne by the United Nations. As a result, UNRWA has not disclosed after-service health insurance repatriation grant or leave pay encashment in its financial statements. These liabilities relating to international staff should be included in the financial statements contained in the report of the Board of Auditors on the United Nations.

15.24 As a part of the implementation of IPSAS, UNRWA appointed an actuarial consultant to determine the employee liabilities for international staff members not funded from the United Nations regular budget. The value of liabilities for international staff not funded from the regular budget is summarized below.

(Thousands of United States dollars)

Benefit	*31 December 2014*	*31 December 2013*
Repatriation grant	809	730
Shipment	712	690
Travel	230	213
After-service health insurance	488	495
Outstanding annual leave	620	599
Total	**2 859**	**2 727**

Assumptions

15.25 The discount rate is assumed to be 4.75 per cent and future salary escalation is assumed to be 3 per cent. The general inflation considered for travel and shipment costs is 2 per cent. The after-service health insurance premium applied for United States nationality is assumed to increase by 6 per cent per annum and that applied for other nationalities is 4 per cent per annum. It is assumed that plan members will resign at the following rates per annum according to their attained ages: less than 30 years, 3 per cent; 30 to 34 years, 2 per cent; 35 to 39 years, 1.5 per cent; and 40 years and above, 0 per cent. It is assumed that rates of in-service mortality of active members of the plan will reflect those in the 1996 United States Annuity 2000 mortality table for males and females.

15.26 After-service health insurance coverage is optional for eligible former international project staff members and their dependants. The Agency's contribution to the after-service health insurance premium is set at 50 per cent with the rest paid by the former staff member. Aetna rates were used for international staff members not funded from the United Nations regular budget and holding United States citizenship, while Vanbreda rates were used for other nationalities. It is of note that only three employees are expected to qualify for this benefit on the assumption of no contract extension.

Note 16
Other current liabilities

Other current liabilities comprise the following:

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Goods in transit not paid for	4 857	9 935
Donor refunding	288	3 278
Total	**5 145**	**13 213**

Note 17
Advance contributions

The amount of contributions received in advance of the criteria for revenue recognition being met is as follows:

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Received from Governments	1 119	6 694
Received from intergovernmental organization	1 489	–
Received from United Nations agency	–	256
Total	**2 608**	**6 950**

Note 18
Contingent liabilities, contingent assets and operating lease commitments

Contingent liabilities

18.1 The Agency's contingent liabilities as at 31 December 2014, compiled by the Legal Department, arise broadly from two categories: those in connection with personnel matters in respect of significant claims, litigation or arbitration, and those associated with contractual matters. Contractual matters relate mostly to claims pertaining to procurement or purchase orders and construction, and claims from proprietors of buildings rented by the Agency.

18.2 A number of personnel appeals which could involve the payment of salary and entitlements or other damages were pending with the UNRWA Dispute Tribunal and the United Nations Appeals Tribunal. The contingent liabilities relating to these appeals amounted to approximately $1.240 million as at 31 December 2014 (compared with $0.978 million as at 31 December 2013).

18.3 The contingent liabilities for commercial contracts amounted to approximately $153.297 million as at 31 December 2014 (compared with $149.954 million as at 31 December 2013).

Contingent assets

18.4 The Agency's contingent assets represent pledges for which donor agreements have been signed but with respect to which the criteria for revenue recognition have not been met. The total amount of contingent assets outstanding as at 31 December 2014 was $256.421 million (compared with $312.594 million as at 31 December 2013).

Operating lease commitments

18.5 Operating costs include lease payments in the amount of $3.403 million recognized as operating lease expenses during 2014 (compared with $3.601 million in 2013). The amount includes minimum lease payments. No contingent rent payments were made.

18.6 The Agency holds principally cancellable operating leases. The operating lease agreements relate mainly to school premises health centres, land and collective shelters for camps, field administrative offices, and warehouse and distribution centres. The total of future minimum lease payments is as follows:

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Not later than one year	255	222
Later than one year and not later than five years	52	116
Later than five years	–	–
Total	**307**	**338**

18.7 Most of the operating lease agreements contain renewal clauses that enable the Agency to extend the terms of the leases at the end of the original terms. Some of the agreements have escalation clauses based on a fixed percentage increase, or a fixed amount increase applied at prespecified intervals or dates in the future. No lease agreements contain purchase options.

18.8 The host Governments and some charitable organizations in the fields in which UNRWA operates provide the use of land for no or nominal rent to UNRWA for the benefit of Palestine refugees. The land is used to build schools, health centres or other UNRWA facilities that are administered by the Agency or in which it provides services.

18.9 These in-kind donations for the use of land have been valued at a fair value of $3.981 million in 2014 (the same as in 2013) and are included in non-exchange revenue and occupancy costs. The fair value for these in-kind donations was calculated using recently negotiated commercial leases that UNRWA holds for land. The average rental return on the capital value of land for commercial leases was applied to the capital value of land, as assessed by external surveyors, provided to UNRWA at no or nominal value.

18.10 The Agency received revenue of $3.142 million from sublease payments in 2014 (compared with $5.286 million in 2013). All subleases are cancellable and contain no contingent lease payments.

Note 19
Revolving loan fund

19.1 Restricted contributions received for on-lending purposes are transferred to the revolving loan fund for both the Microfinance Department and the microcredit community support programme. The revolving loan fund is included as a component of the Microfinance Department and microcredit community support programme reserve in the statement of changes in net assets/equity.

19.2 The composition of the revolving loan fund as at 31 December 2014 and 31 December 2013 was as follows:

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Microfinance Department	24 324	23 423
Microcredit community support programme	3 238	2 770
Total	**27 562**	**26 193**

Note 20
Cash contributions revenue

Total cash contributions revenue by source received in 2014 and 2013 was as follows:

(Thousands of United States dollars)

	2014	*2013*
Governments	1 032 277	819 072
Intergovernmental organizations	176 220	216 988
Non-governmental organizations and other entities	40 750	21 005
United Nations organizations	43 278	43 706
Total	**1 292 525**	**1 100 771**

Note 21
In-kind contributions revenue

Total in-kind contributions revenue by source received in 2014 and 2013 was as follows:

(Thousands of United States dollars)

	2014	*2013*
Governments	19 116	11 018
Intergovernmental organizations	13	–
Non-governmental organizations and other entities	8 468	9 100
United Nations organizations	1 066	1 185
Total	**28 663**	**21 303**

Note 22
Interest on loans

Interest on loans represents interest charged on loans issued by the Microfinance Department and the microcredit community support programme throughout the Agency's five fields. The composition of interest on loans in 2014 and 2013 was as follows:

(Thousands of United States dollars)

	2014	*2013*
Microfinance Department	7 783	7 958
Microcredit community support programme	266	229
Total	**8 049**	**8 187**

Note 23
Interest revenue

Interest revenue is recognized over the period during which it is earned. The amount of interest on bank deposits is $0.453 million in 2014 (compared with $0.522 million in 2013).

Note 24
Currency exchange gain/(loss)

Currency exchange gains or losses are realized and unrealized exchange gains or losses on the translation of non-United States dollar-denominated balances and transactions during the year.

(Thousands of United States dollars)

	2014	*2013*
Realized currency exchange rate gain	292	7 099
Unrealized currency exchange rate loss	(15 957)	(1 366)
Accounts receivable income realized exchange rate gain/(loss)	(678)	239
Total	**(16 343)**	**5 972**

Note 25
Project support cost recovery

The Agency is entitled to a specific percentage of the expenditure incurred on certain projects in accordance with donor agreements. Programme support cost recoveries are recognized as income and represent the recovery of overhead costs incurred by the Agency in implementing the related projects. The amount of programme support cost recovery is $0.098 million in 2014 (compared with $0.136 million in 2013).

Note 26
Miscellaneous revenue

26.1 Miscellaneous revenue comprised the following:

(Thousands of United States dollars)

	2014	*2013*
Canteen lease revenue	3 142	5 286
Profit on income-producing activities	(13)	8
Sundries	5 743	3 573
Income received from United Nations agencies	168	264
Refunds to donors	(541)	(4 064)
Total	**8 499**	**5 067**

26.2 Refunds to donors represent amounts that have been recorded as revenue but are required to be refunded to donors in accordance with the terms of donor agreements.

Note 27
Wages, salaries and employee benefits

Wages, salaries and employee benefits consisted of the following:

(Thousands of United States dollars)

	2014	*2013*
International staff	43 739	44 744
Area staff		
Basic salaries, allowances and benefits	546 646	522 696
Area Staff Provident Fund contributions	52 403	51 916
Health-related expenses	8 712	8 682
Total	**651 500**	**628 038**

Note 28
Supplies and consumables

The composition of supplies and consumables in 2014 and 2013 was as follows:

(Thousands of United States dollars)

	2014	*2013*
Basic commodities	96 912	83 512
Clothing supplies	6 235	4 363
Fresh food	25 558	4 196
Medical supplies	23 302	22 473
Miscellaneous supplies	21 335	19 767
Sport supplies	320	325
Textbooks and library books	5 433	6 011
Transportation supplies	6 932	6 613
Total	**186 027**	**147 260**

Note 29
Occupancy, utilities and premises costs

Occupancy, utilities and premises costs in 2014 and 2013 consisted of the following:

(Thousands of United States dollars)

	2014	*2013*
Rental of premises	7 384	7 583
Maintenance of premises	7 562	4 668
Utilities	7 022	5 476
Total	**21 968**	**17 727**

Note 30
Contracted services

The composition of services expenses in 2014 and 2013 was as follows:

(Thousands of United States dollars)

	2014	*2013*
Construction and equipment	64 450	58 200
Contractual costs	15 360	18 607
Hospital costs	19 732	22 555
Miscellaneous, including accruals	7 763	3 734
Consultancy costs	16 429	10 444
Demurrage and port charges	10 962	4 391
Training costs	3 691	3 666
Travel	2 582	2 530
Total	**140 969**	**124 127**

Note 31
Subsidies

31.1 Subsidies represent amounts paid to Palestine refugees for the following:

(Thousands of United States dollars)

	2014	*2013*
Cash subsidies to beneficiaries	174 869	131 108
Patient subsidies	5 187	4 306
Subsidies for the construction and repair of shelters	48 398	19 626
Subsidies payable to a third party	7 257	1 713
Total	**235 711**	**156 753**

31.2 Cash subsidies paid to beneficiaries provide selective cash assistance for conflict-affected Palestine refugees in the Gaza Strip and the Syrian Arab Republic, food security and rent subsidies, whereas subsidies paid to third party consist of cash disbursed by UNRWA to the community for activities that will improve the lives of the refugees.

Note 32
Provisions and write-offs

The composition of provisions and write-off expenses in 2014 and 2013 was as follows:

(Thousands of United States dollars)

	2014	*2013*
Provisions and write-off expenses on accounts receivable	17 524	12 296
Recoveries of provision on contributions receivable	817	119
Provisions and write-off expenses on loans receivable	1 117	1 019
Total	**19 458**	**13 434**

Note 33
Segment reporting

33.1 A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. Segment information is provided on several bases to reflect UNRWA objectives and activities. Full segment reporting is provided for sources of funds segments. Segment expense reports are provided for (a) human development goals, (b) major programmes and (c) geographical locations.

(a) Sources of funds

33.2 A fund is an accounting entity established to account for transactions relating to a specified purpose or objective. Funds are segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial statements are prepared on a fund accounting basis, showing at the end of the period the aggregated position of all funds. Fund balances represent the accumulated residual of revenue and expenses.

33.3 The Agency's activities are financed through five fund groups. Each group of funds has differing parameters for utilization of the revenue.

33.4 The unearmarked fund is part of the UNRWA General Fund and is the principal means of financing the Agency's recurrent activities. The fund enables the Agency to meet obligations from authorized appropriations and is financed primarily by voluntary contributions and in-kind donations from Governments, intergovernmental and non-governmental bodies and host authorities.

33.5 The earmarked fund is also part of the UNRWA General Fund but its use is restricted to specific activities (e.g. direct support, cash and food assistance provided through the social safety net programme) that are undertaken during a defined time period within a defined budget.

33.6 The Microfinance Department fund is used to provide credit for enterprise activities, household consumption and housing needs that will improve the quality of life of householders and small-business owners and will help to sustain jobs, reduce poverty, empower women and provide income-generating opportunities for Palestine refugees.

33.7 Emergency appeal funds are used to address emergency needs through the delivery of emergency relief, for example, food aid, shelter and medical supplies. Funds are raised mainly through the consolidated appeals process and are to be utilized during specified time periods.

33.8 Project funds are used to meet capital expenditure needs (e.g. school and health centre construction) or development needs to improve or supplement existing programmes and systems (e.g. environmental health improvement). Projects are undertaken to meet a specific objective, and contributions are time-bound and earmarked for specified purposes.

(b) Human development goals

33.9 As part of its planning approach, UNRWA has five human development goals that provide it with direction in fulfilling its mission of helping Palestine refugees. Fifteen strategic objectives that guide UNRWA core activities are grouped into five human development goals, as follows:

- A long and healthy life, including the objectives of: (a) ensuring universal access to quality, comprehensive primary health care; (b) protecting and promoting family health; and (c) preventing and controlling diseases;
- Acquired knowledge and skills, including the objectives of: (a) ensuring universal access to and coverage of basic education; (b) enhancing education quality and outcomes against set standards; and (c) improving access to education opportunities for learners with special education needs;
- A decent standard of living, including the objectives of: (a) reducing abject poverty; (b) mitigating the effects of emergencies (both small-scale family and

national crises) on individuals; (c) offering inclusive financial services and increased access to credit and savings facilities, especially for vulnerable groups such as women, youth and the poor; (d) improving employability; and (e) improving the urban environment through sustainable camp development and the upgrading of substandard infrastructure and accommodation;

- Human rights enjoyed to the fullest possible extent, including the objectives of: (a) ensuring that service delivery meets the protection needs of beneficiaries, including vulnerable groups; (b) safeguarding and advancing the rights of Palestine refugees by promoting respect for human rights, international humanitarian law and international refugee law; (c) strengthening the capacity of refugees to formulate and implement sustainable social services in their communities; and (d) ensuring that Palestine refugee registration and determination of eligibility for UNRWA services are carried out in accordance with relevant international standards;
- Effective and efficient governance, including the objectives of providing overall direction and control of UNRWA and ensuring efficient operations and effective financial and risk management.

(c) Programme

33.10 The Agency is functionally organized under five programmes that provide services to its beneficiaries or internal support services, as follows:

- The education programme provides basic and secondary education for learners with special education needs, and vocational and technical training. The programme has 10 vocational training centres which provide skills training in such fields as pharmacy, plumbing, carpentry, business and computing. The programme offers in-service training and development for teachers to develop their professional qualifications and pre-service training for new teachers. The programme also encourages the progression of students to higher education by means of scholarships;
- The health programme provides a network of primary health-care facilities and mobile clinics that provide the foundation of its health services, offering preventive general medicine and specialist care services tailored for each stage of life. Although the programme is focused mainly on primary health care, it also helps Palestine refugees to gain access to secondary and tertiary health-care services. The environmental health subprogramme controls the quality of drinking water, provides sanitation and carries out vector and rodent control in refugee camps;
- The infrastructure and camp improvement programme addresses the deteriorating living conditions of Palestine refugees in camps. The programme promotes environmentally and socially sustainable neighbourhoods. UNRWA repairs shelters and, in coordination with the host Governments, plans for rehousing and reconstruction projects after demolitions caused by armed conflict or other emergencies. The programme manages the construction and maintenance of all UNRWA facilities and installations, and promotes a safe and healthful urban environment for Palestine refugees through the provision of well-maintained water wastewater and storm-water drainage. It also maintains electricity infrastructure and accessible road and footpath networks;

- The relief and social services programme provides a range of direct and indirect social protection services for Palestine refugees. The relief services subprogramme provides social safety-net assistance that includes basic food support, cash subsidies and additional family income supplements for the most vulnerable Palestine refugees caught in the cycle of abject poverty. It also provides selective cash assistance, such as one-off cash grants for basic household needs in family emergencies. In addition, the subprogramme provides direct aid during emergencies caused by violence and political unrest, along with shelter rehabilitation in coordination with other programmes. The social services subprogramme promotes community-based action that enables particularly vulnerable refugees to become more self-reliant. The programme particularly addresses the needs of women, refugees with disabilities, young people and the elderly. It also helps vulnerable refugees through its microcredit programme, which is managed by community-based organizations;
- The support departments assist the Commissioner-General in the smooth running and governance of the Agency. This includes the effective management of personnel and financial resources, oversight, internal communication, legal support, fundraising, advocacy and outreach to external interlocutors.

(d) Geographical locations

33.11 Although UNRWA goals and services are delivered primarily within a programme approach, the Agency's operations are managed on a field basis. UNRWA operates in five fields: Jordan, Lebanon, the Syrian Arab Republic and the occupied Palestinian territory (the West Bank, including East Jerusalem, and the Gaza Strip). Each field provides similar services but is distinctive to some extent, owing to the particular political humanitarian and economic contexts in which it operates and the status and rights enjoyed by the Palestine refugees in it.

33.12 The operations of the five field offices which, together with UNRWA headquarters, provide services directly to Palestine refugees are described below:

- *Gaza field office*. The Gaza Strip has a population of more than 1.5 million, including some 1.3 million registered Palestine refugees. The field office supports eight camps, 245 schools, two vocational and technical training centres, 22 primary health centres, six community rehabilitation centres and seven women's programme centres. The ongoing blockade of the Gaza Strip has severely affected the economy and the enjoyment by Palestine refugees of a range of human rights;
- *Lebanon field office*. Some 452,669 Palestine refugees are registered with UNRWA in Lebanon, with many living in refugee camps. The field office supports 12 camps, 69 schools, two vocational and technical training centres, 27 primary health centres, one community rehabilitation centre and nine women's programme centres. Palestine refugees in Lebanon do not enjoy several basic human rights; for example, they have restricted access to the local labour market;
- *Syrian Arab Republic field office*. UNRWA is mandated to provide services to more than 528,616 Palestine refugees living in the official camps and the three unofficial camps in the Syrian Arab Republic. The ongoing armed conflict in the Syrian Arab Republic has affected the economy, which in turn has had an

impact on the Palestine refugee community. The field office supports nine camps, 94 schools, the Damascus Training Centre, 23 primary health centres, five community rehabilitation centres and 13 women's programme centres. While Palestine refugees have many of the rights of Syrian citizens, including access to social services provided by the Government, development indicators reveal that they lag behind the host population in key areas; Palestine refugees have also been vulnerable to the ongoing conflict. Many have been displaced within the Syrian Arab Republic, while thousands of others have fled to neighbouring countries, including Lebanon and Jordan. The situation remains volatile, with numbers and needs constantly changing, but despite the many challenges, UNRWA is continuing its emergency relief, health and education services in the Syrian Arab Republic. In Lebanon and Jordan, the Agency is also trying to provide for the needs of those fleeing the conflict;

- *Jordan field office.* More than 2 million Palestine refugees are registered in Jordan. The field office supports 10 camps, 173 schools, two vocational and technical training centres, 23 primary health centres, eight community rehabilitation centres and 12 women's programme centres. All Palestine refugees in Jordan have full citizenship, with the exception of some 140,000 Palestine refugees originally from Gaza, who are eligible for temporary passports but are not entitled to vote or to work in government;
- *West Bank field office.* The West Bank covers an area of 5,500 square kilometres and has an estimated population of 2.4 million, around 774,167 of whom are registered Palestine refugees. One quarter of the registered Palestine refugees live in 19 refugee camps, with most others living in West Bank towns and villages. The field office supports 19 camps, 97 schools, three vocational and technical training centres, 42 primary health centres, 15 community rehabilitation centres and 18 women's programme centres. West Bank refugees have been hard hit by closures imposed on the West Bank by the Israeli authorities; historically, they have been largely dependent on income from work inside Israel;
- *UNRWA headquarters* covers three locations: the Gaza Strip, East Jerusalem and Amman. The headquarters organization includes the Department of Planning, the Department of Administrative Support, the Department of Internal Oversight Services, the Department of Human Resources, the Department of Legal Affairs, the Executive Office, the Finance Department, the Enterprise Resources Planning Department and the External Relations and Communications Department, as well as the departments of education, health, relief and social services, infrastructure and camp improvement, and microfinance. The headquarters function are also carried out at representative offices in New York, Washington, D.C., and Brussels, and a liaison office in Cairo.

(e) Basis of pricing for inter-segment transfers and charges

33.13 Programme support costs are incurred by UNRWA in support of the implementation of its non-regular budget activities that cannot be directly attributed to specific activities, projects or programmes. Programme support costs represent administrative, managerial, logistical and other support costs, including costs relating to staff recruitment budgetary and financial control, information and communications technology support, and actions in respect of procurement transport and warehousing.

33.14 Programme support costs represent a recovery of project expenditures to ensure that non-regular activities do not constitute financial costs in terms of the Agency's regular budget.

33.15 Programme support costs at a uniform standard rate of 11 per cent are usually charged against all contributions for non-regular budget activities except for those of the Microfinance Department, with respect to which a standard rate of 6 per cent is charged on the Department's running costs, excluding staff costs.

Segment reporting by fund: financial position as at 31 December 2014

(Thousands of United States dollars)

	Unearmarked activities	*Earmarked activities*					
	General Fund	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund balances*	*Total*
Assets							
Current assets							
Cash and cash equivalents	3 037	1 025	9 950	134 970	156 471	–	305 454
Short-term loans receivable	–	–	19 820	–	1 358	–	21 178
Contributions receivable	17 315	–	–	2 042	18 830	–	38 188
Accounts receivable	43 578	3	–	–	10 037	(11 010)	42 607
Other current assets	3 678	20	314	2 911	319	–	7 241
Operational Microfinance Department account with UNRWA	–	616	–	–	–	(616)	–
Inventories	18 038	2 770	–	24 855	39 901	–	85 564
Derivative financial instruments	4 877	–	–	–	–	–	4 877
Non-current assets							
Other non-current assets	234	–	–	–	–	–	234
Long-term loans receivable	–	–	1 547	–	1 047	–	2 594
Property, plant and equipment	420 694	2 726	513	557	25 495	–	449 985
Intangible assets	21 779	11 101	465	–	–	–	33 346
Total assets	**533 231**	**18 261**	**32 609**	**165 335**	**253 457**	**(11 626)**	**991 268**
Liabilities							
Current liabilities							
Payables and accruals	50 130	4 242	378	12 209	19 515	76	86 551
Employee benefits	65 103	–	353	–	–	25	65 481
Operational Microfinance Department account with UNRWA	–	–	616	–	–	(616)	–
Derivative financial liability	6 755	–	–	–	–	–	6 755
Other current liabilities	3 157	2	–	230	1 755	–	5 145
Advance contributions	11 097	1 032	–	–	1 490	(11 010)	2 608

	Unearmarked activities	*Earmarked activities*					
	General Fund	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund balances*	*Total*
Non-current liabilities							
Employee benefits	491 999	–	2 787	–	–	–	494 786
Other non-current liabilities	–	–	9 875	–	–	–	9 875
Total liabilities	**628 240**	**5 277**	**14 010**	**12 440**	**22 760**	**(11 525)**	**671 202**
Net assets	**(95 009)**	**12 984**	**18 599**	**152 895**	**230 697**	**(101)**	**320 066**
Revaluation and other reserves	(11 625)	–	–	–	–	323	(11 302)
Capital reserve: microcredit community support programme and Microfinance Department	–	–	24 324	–	3 238	–	27 562
Accumulated surplus/deficit	(83 384)	12 984	(5 725)	152 895	227 459	(424)	303 806
Total net assets/equity	**(95 009)**	**12 984**	**18 599**	**152 895**	**230 697**	**(101)**	**320 066**

Segment reporting by fund: financial performance as at 31 December 2014

(Thousands of United States dollars)

	Unearmarked activities	*Earmarked activities*					
	General Fund	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund balances*	*Total*
Revenue							
Cash contributions	593 474	17 232	741	330 426	350 652	–	1 292 525
In-kind contributions	–	11 635	–	13 597	3 430	–	28 663
Interest on loans	–	–	7 783	–	266	–	8 049
Interest on bank deposits	203	–	250	–	–	–	453
Other revenue							
Foreign currency exchange gain	(15 087)	15	(74)	(246)	(950)	16 343	–
Programme support cost recovery	49 226	–	–	–	–	(49 128)	98
Financial derivative loss	3 899	–	–	–	–	–	3 899
Miscellaneous revenue	5 466	3 197	433	115	(713)	–	8 499
Total revenue	**637 181**	**32 079**	**9 132**	**343 893**	**352 685**	**(32 785)**	**1 342 186**
Expenses							
Wages, salaries and employee benefits	526 620	22 080	6 006	47 972	54 460	(5 639)	651 500
Supplies and consumables	39 523	22 392	240	90 582	33 476	(184)	186 027
Occupancy, utilities and premises costs	10 937	5 255	643	1 199	4 079	(146)	21 968
Contracted services	32 552	2 479	1 371	15 207	89 296	67	140 969
Microfinance Department cost recovery	–	(6 146)	–	–	–	6 146	–
Programme support costs	71	32	30	21 449	27 545	(49 128)	–
Cash subsidies	13 868	961	–	58 961	161 921	–	235 711
Depreciation	24 300	–	278	–	–	–	24 578
Provisions	17 752	–	1 048	–	657	–	19 458
Loss on disposal	1 348	–	–	–	–	–	1 348
Impairment of property, plant and equipment	593	–	–	–	–	–	593
Foreign currency exchange loss	–	–	–	–	–	16 343	16 343
Total expenses	**667 564**	**47 055**	**9 616**	**235 368**	**371 433**	**(32 541)**	**1 298 494**
Surplus/(deficit) for the year	**(30 383)**	**(14 976)**	**(484)**	**108 525**	**(18 748)**	**(244)**	**43 692**

Segment reporting by human development goal: expenses as at 31 December 2014

(Thousands of United States dollars)

	Long and healthy life	*Acquired knowledge and skills*	*Decent standard of living*	*Human rights enjoyed to the fullest*	*Effective and efficient governance and support in UNRWA*	*Unallocated human development goal*	*Inter-fund balances*	*Total*
Wages, salaries and employee benefits	87 466	384 608	67 326	7 585	104 312	5 842	(5 639)	651 500
Supplies and consumables	24 567	11 204	136 184	6 269	7 734	255	(184)	186 027
Occupancy, utilities and premises costs	2 211	8 055	4 298	318	6 286	946	(146)	21 968
Contracted services	26 388	11 199	65 837	1 952	33 794	1 732	67	140 969
Microfinance Department cost recovery	–	–	(6 146)	–	–	–	6 146	–
Programme support costs	–	–	–	–	–	49 128	(49 128)	–
Cash subsidies	6 634	283	221 784	1 221	6 989	(1 201)	–	235 711
Depreciation	3 117	13 892	2 500	674	4 116	278	–	24 578
Provisions	–	–	24	–	18 385	1 048	–	19 458
Loss on disposal	207	1 113	2	9	17	–	–	1 348
Impairment of property, plant and equipment	182	395	14	–	2	–	–	593
Foreign currency exchange loss	–	–	–	–	–	–	16 343	16 343
Total	**150 772**	**430 748**	**491 825**	**18 030**	**181 632**	**58 028**	**(32 541)**	**1 298 494**

Segment reporting by programme: expenses as at 31 December 2014

(Thousands of United States dollars)

	Education	*Health*	*Infrastructure and camp development*	*Relief and social services*	*Support departments*	*Inter-fund balances*	*Total*
Wages, salaries and employee benefits	399 160	86 096	14 182	26 439	131 262	(5 639)	651 500
Supplies and consumables	13 499	24 396	518	139 547	8 252	(184)	186 027
Occupancy, utilities and premises costs	11 517	1 985	897	1 270	6 446	(146)	21 968
Contracted services	35 028	26 045	10 536	34 178	35 113	67	140 969
Microfinance Department cost recovery	–	–	–	(6 146)	–	6 146	–
Programme support costs	3 733	2 184	11 324	24 597	7 290	(49 128)	–
Cash subsidies	7 253	6 657	1 761	205 780	14 262	–	235 711
Depreciation	15 863	2 959	487	1 121	4 149	–	24 578
Provisions	–	–	–	24	19 434	–	19 458
Loss on disposal	1 113	207	–	11	17	–	1 348
Impairment of property, plant and equipment	395	182	2	12	2	–	593
Foreign currency exchange loss	–	–	–	–	–	16 343	16 343
Total	**487 561**	**150 710**	**39 704**	**426 835**	**226 225**	**(32 541)**	**1 298 494**

Segment reporting by geographical location: financial performance as at 31 December 2014

(Thousands of United States dollars)

	Gaza field	*Lebanon field*	*Syrian Arab Republic field*	*Jordan field*	*West Bank field*	*Headquarters*	*Inter-fund balances*	*Total*
Expenses								
Wages, salaries and employee benefits	265 514	74 324	53 134	118 484	107 260	38 426	(5 639)	651 500
Supplies and consumables	116 563	11 790	30 527	12 538	13 944	852	(184)	186 027
Occupancy, utilities and premises costs	4 340	3 314	1 897	6 215	5 009	1 340	(146)	21 968
Contracted services	44 860	58 129	7 480	4 273	12 574	13 586	67	140 969
Microfinance Department cost recovery	(1 076)	–	(616)	(1 632)	(2 822)	–	6 146	–
Programme support costs	23 747	6 976	13 098	1 381	3 568	358	(49 128)	–
Cash subsidies	68 292	46 368	96 490	11 873	11 424	1 265	–	235 711
Depreciation	12 833	2 606	1 694	2 510	4 282	653	–	24 578
Provisions	–	20	(9)	0	62	19 385	–	19 458
Loss on disposal	188	1 097	–	61	–	1	–	1 348
Impairment of property, plant and equipment	440	–	153	–	–	–	–	593
Foreign currency exchange loss	–	–	–	–	–	–	16 343	16 343
Total	**535 700**	**204 620**	**203 846**	**155 705**	**155 298**	**75 866**	**(32 541)**	**1 298 494**

Note 34
Presentation of budget information

34.1 The UNRWA budget figures are determined on a modified cash basis (i.e. United Nations system accounting standards) and disclosed in the statement of comparison of budget and actual amounts (statement V) as the original budget derived from the 2014-2015 programme budget (Blue Book), as recommended by the Advisory Committee on Administrative and Budgetary Questions and endorsed by the General Assembly.

34.2 As compared with the Blue Book budget, the General Fund budget, made available at the beginning of each year, reflects reduced requirements based on the end-of-year income forecast and acceptable cash deficit. However, for the projects budget, resources are made available when contributions are received and/or, on exceptional basis, when funds are confirmed by donors for approved projects.

34.3 With the adoption of IPSAS, UNRWA internally adopted an accrual budgeting system based on IPSAS. However, in compliance with the Financial Rules and Regulations, the final budget set out in financial statement V still refers to a modified cash basis budget and is used for comparison with the actual amounts.

34.4 The UNRWA budget encompasses three main entities (fund types): the General Fund unearmarked budget, funded mainly by voluntary contributions, along with 150 international staff funded through the United Nations regular budget from assessed contributions; General Fund in-kind donations; and the projects budget.

34.5 The Agency's budget structure follows a results-based budgeting format, as reflected in the two-year field implementation and headquarters department implementation plans which are derived from the medium-term strategy for the period 2010-2015.

34.6 The budgets and accounts of UNRWA are prepared using a different basis. The statement of financial position, statement of financial performance, statement of changes in net assets and statement of cash flow are prepared on a full accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the statement of comparison of budget and actual amounts (statement V) is prepared on a modified cash basis of accounting.

34.7 As required under IPSAS 24, the actual amounts presented on a comparable basis to the budget shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the actual amounts presented in the financial statements, identifying separately any basis, timing and entity differences. There may also be differences in formats and classification schemes adopted for the presentation of the financial statements and the budget.

34.8 Basis differences occur when the approved budget is prepared on a basis other than the accounting basis, as stated in paragraph 34.6 above.

34.9 Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for UNRWA for purposes of comparison of budget and actual amounts.

34.10 Entity differences occur when the budget omits funds that are part of the entity for which the financial statements are prepared.

34.11 Presentation differences are due to differences in the format and classification schemes adopted for presentation of the statement of cash flow and the statement of comparison of budget and actual amounts.

34.12 Reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts (statement V) and the actual amounts in the statement of cash flow (statement IV) for the period ended 31 December 2014 is presented below.

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Actual amounts on a comparable basis (statement V)	1 129 523	–	–	1 129 523
Basis differences	(7 539)	(56 652)	2 271	(61 920)
Timing differences	–	–	–	–
Entity differences	(89 620)	7 059	(902)	(83 463)
Presentation differences	(957 081)	–	–	(957 081)
Actual amounts in the statement of cash flow (statement IV)	**75 283**	**(49 593)**	**1 369**	**27 059**

34.13 Open commitments, including open purchase orders and net cash flows from operating, investing and financing activities, are presented as basis differences. Revenue that does not form part of the statement of comparison of budget and actual amounts is reflected as presentation differences. Entity differences occur as the approved budget, as noted above, includes the General Fund unearmarked budget, the General Fund in-kind donations and the projects budget. The cash flow statement also includes the emergency appeals fund, the Microfinance Department fund and the earmarked fund of the General Fund.

34.14 Budget amounts have been presented on a classification based on the nature of expenses in accordance with the approved 2014-2015 programme budget, as recommended by the Advisory Committee on Administrative and Budgetary Questions and endorsed by the General Assembly.

(Thousands of United States dollars)

	Total expenses
Actual amounts on a comparable basis (statement V)	1 129 523
Basis differences	(123 068)
Timing differences	–
Entity differences	292 039
Actual amounts in the statement of financial performance (statement II)	**1 298 494**

Explanations of material differences

34.15 Explanations of material differences between the original budget and the final budget, and between the final budget and the actual amounts, are presented below.

Original and final budgets (income and expense/capital expenditure)

34.16 The original income of the General Fund budget is the projected income as reflected in the Blue Book, which for 2014 was $979.0 million. As for the General Fund in-kind donations and projects budgets, original income is equivalent to the budgeted figures reflected in the Blue Book on the assumption that all will be funded.

34.17 The final income of the General Fund budget is the actual income received, while for the General Fund in-kind donations and projects budgets, final income is equivalent to the total budget allocation at year-end.

34.18 The original budget of expenditure is the budget as published in the Blue Book, while the final budget of expenditure is the approved 2014 budget allocation at year-end.

34.19 The 2014 programme budget, as reflected in the Blue Book for 2014-2015, amounted to $979.0 million (modified cash basis). This is disclosed in financial statement V as "original" budget. On a modified cash basis, the final 2014 programme budget was $1,236.7 million, representing an increase of $81.7 million, or 8.3 per cent. This is disclosed in financial statement V as "final" budget. The $81.7 million is a reflection of the increase in the final budget, as explained below. The following are the main basic changes during the budget execution in 2014 (in millions of United States dollars):

$979.0	**Approved Blue Book budget (2014 original budget — General Fund cash, General Fund in-kind, projects)**
($247.4)	Blue Book projects approved budget
($2.3)	Blue Book General Fund (in-kind) approved budget
$729.3	**General Fund (cash) approved budget, 1 January 2014**
-$33.9	Staff costs
-$15.8	Inventory and non-inventory supplies
-$10.7	Utilities, maintenance and equipment/capital expenditure
-$0.2	Training, travel and consultancy
-$4.0	Hospital services
-$1.9	Miscellaneous services
+$1.3	Subsidies
-$7.0	Reserves (redeployed during the budget execution)
-$22.0	Cost recovery (chiefly due to budgeted General Fund relieving activities in the amount of -$20.0)
$635.2	**General Fund (cash) final budget, 31 December 2014 (in compliance with the approved budget)**
$589.3	Final projects budget
$12.2	Final General Fund (in-kind) budget
$1,236.7	**Total final budget (General Fund cash, General Fund in-kind, projects)**

Utilization of the budget

34.20 The variation in the budgetary utilization of the different budget cost components is due to various factors, such as currency adjustment, General Fund relieving activities, cash distribution from the social safety net programme and other budget risks. The utilization rate against the key various cost components rates is as follows:

- *Staff costs*. Implementation rate is 99.9 per cent. The currency adjustment factor budget was exceeded by $8.8 million due to an unbudgeted 10-year high new Israeli sheqel rate. Also, the severance cash payout was exceeded by $3.0 million due to the increase in the number of retirees, which had not been budgeted for at the beginning of the year. Both items of overexpenditure have been covered by under-implementation in other budget line items;

- *Supplies*. Implementation rate is 91.5 per cent. The underutilization of $9.5 million is due to time variance and delays in project timelines, resulting in the phasing over of the projects budget to 2015;

- *Maintenance of premises and equipment*. Implementation rate is 85.7 per cent. The underutilization of $16.1 million pertains to items in the projects budget carried forward to 2015;

- *Training, travel, administrative services and consultancy*. Implementation rate is 75 per cent. The underutilization is due to austerity measures implemented by the Agency's executive management;

- *Hospital and miscellaneous services.* Implementation rate is 73 per cent, due to timing variances in obligations and service contracts that are yet to be implemented in 2015;
- *Costs recovery.* Implementation rate is 12.6 per cent due to the amount of $20.0 million forecast for General Fund relieving activities, which was not reduced during budget implementation in 2014.

Note 35
Going concern

35.1 The accompanying financial statements have been prepared on the assumption that the Agency will continue to operate as a going concern. As shown in the financial statements, however, the Agency experienced a net gain of $43.692 million in 2014 and a net gain of $23.463 million in 2013. The factors set out below provide evidence as to the continuing nature of the Agency as a going concern.

35.2 The Agency has total net assets of $320.066 million in 2014 (compared with $274.531 million in 2013) and total current assets exceed total current liabilities by $338.570 million in 2014 (compared with $292.646 million in 2013). The balance of cash and cash equivalents held by the Agency as at 31 December 2014 was $305.454 million (compared with $278.395 million in 2013). In addition, as described in note 18, the Agency, as at 31 December 2014, had contingent assets in the amount of $256.421 million (compared with $312.594 million as at 31 December 2013), relating to contributions from donors for which the agreements had been signed but the criteria for revenue recognition had not yet been met.

35.3 The Agency is funded by voluntary contributions from Member States and other donors for the support of its ongoing programmes and activities. All key donors reaffirm their support every six months at a semi-annual meeting of the Advisory Commission. Furthermore, UNRWA is actively diversifying its funding base by successfully targeting and increasing donations from emerging markets, such as the Middle East. On 1 January 2012, the Agency established a new Partnerships Unit which has held successful discussions with high net worth philanthropic organizations.

35.4 Given the history of the Agency and the continuous efforts of management to mobilize resources for its operations, there is no substantial threat to the Agency's overall ability to operate as a going concern for the foreseeable future.

35.5 In 2013, as part of a strategic, medium-term approach, UNRWA began to develop its next medium-term strategy. The aim of the medium-term strategy is to provide the strategic framework for the Agency's operations for the period 2016-2021.

35.6 Funding the operations of the unearmarked activities of the General Fund has presented the greatest challenge to the Agency in recent years. As reflected in the segment reporting by fund, unearmarked activities incurred a deficit of $30.383 million as at 31 December 2014 (compared with a deficit of $60.570 million as at 31 December 2013). The net assets of the General Fund reflected a net deficit of $95.009 million as at 31 December 2014 (compared with a net deficit of $80.537 million as at 31 December 2013). The Agency is actively seeking contributions to support its unearmarked activities in order to sustain core operations.

Note 36
Related parties

Related parties for UNRWA include:

(a) The Area Staff Provident Fund, as it is controlled by the Agency;

(b) The United Nations Secretariat, given that it exercises significant influence over UNRWA because, inter alia, the salaries, related expenditures and liabilities of the majority of the Agency's international staff, including its key management personnel, are paid from the regular budget of the United Nations;

(c) Key management personnel, who include the members of the Management Committee, have authority with respect to planning, directing and controlling the activities of the Agency (or significant parts thereof). The major classes of key management personnel are Commissioner-General/Deputy Commissioner-General and field/headquarters directors. The aggregate remuneration paid to key management personnel includes net salaries, post adjustment, entitlements such as allowances, grants and subsidies, and employer pension and health insurance contributions. Key management personnel remuneration incorporates housing allowances and representation allowances paid as part of salaries, despite the presence of a representative aspect to these allowances. Transactions conducted with key management personnel in 2014 are summarized as follows:

(Thousands of United States dollars)

	Number of individuals	*Total remuneration*	*Outstanding advances against entitlements*	*Outstanding loans*
Key management personnel	25	5 239	306	–

(d) No close family members of key management personnel were employed by the Agency during the year;

(e) Advances are those made against entitlements in accordance with UNRWA area and international staff rules and regulations. Advances against entitlements are widely available to all UNRWA staff.

Note 37
Subsequent events

Area staff retirement age

37.1 In 2014, for service period rendered after 1 January 2015, the Agency increased the percentage for the end-of-service benefit calculation for area staff to 12 per cent instead of 11 per cent. In addition, the currency adjustment allowance factor was added to the base salary. These changes are expected to result in an increase in the respective employee benefit costs.

37.2 Limited demonstrations and protests in the Syrian Arab Republic in early 2011, arising from the so-called Arab Spring, developed into full-scale armed conflict by June 2012. The ongoing conflict in the Syrian Arab Republic has continued into 2014 and 2015, affecting the economy and the stability of the region. The decrease in the value of the Syrian pound and the increase in the costs of basic commodities, along with ongoing conflict and physical damage to Agency assets, have affected UNRWA operations in the region. There is no indication of a final resolution. With respect to the provision of human development and humanitarian services in Gaza, the Agency's work has been affected during the past year by the 50-day conflict which took place during July-August 2014, the impact of which is ongoing. UNRWA continues its efforts to provide relief, education, health and other services to 1.2 million Palestinian refugees in the face of increased funding needs for infrastructure and service provision in the aftermath of that conflict.

Note 38
Date and approval

The financial statements and notes were certified as correct and approved by the Director of Finance and were issued on 30 March 2015.

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